

# عاماً من الصيرفة الإسلامية





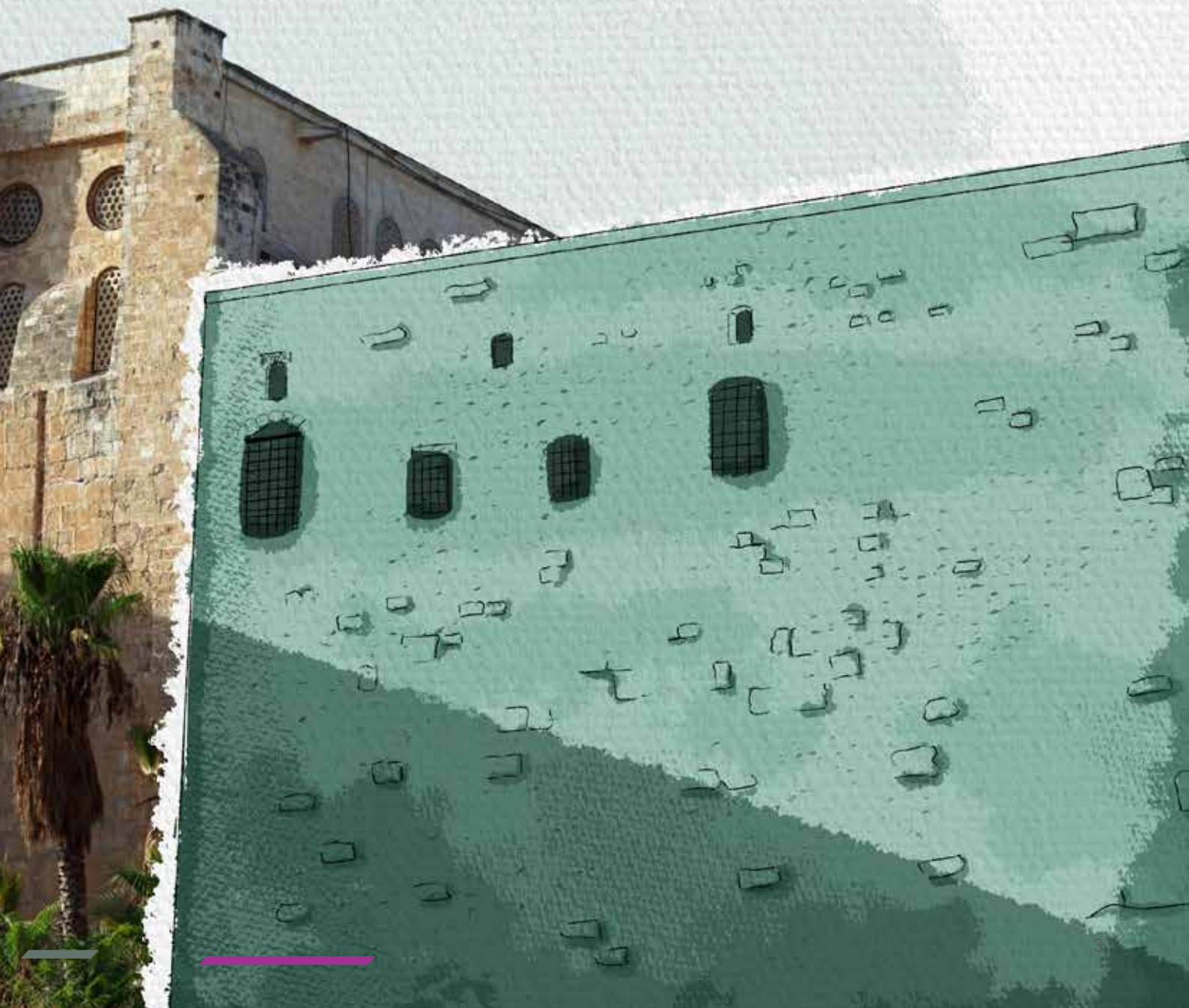


## In the Name of Allah, the Most Gracious, the Most Merciful

“O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged”

True are the words of God the Almighty

Surat Al-Baqarah, verses 278-279



# Table of Contents

■ About the Arab Islamic Bank	6	■ Governance and Organizational Structure	58
■ A Message from the Chairman of the Board	8	■ AIB's Organizational Structure	59
■ Members of the Board of Directors	10	■ AIB's Governance	60
■ The Executive Management	20	■ Role and Responsibilities of the Board of Directors	65
■ Board of Director's Report	28	■ BoD Subcommittees	67
■ Islamic Banking	28	■ Benefits and Bonuses	73
■ AIB's Performance Indicators	30	■ General Assembly Meeting	76
■ AIB's Trade Mark	34	■ Investors' Relations Management	77
■ AIB's Presence	36	■ The Consolidated Fatwa and Shari'a Monitoring	80
■ Advanced Services and Products	38	Committee	
■ Global Awards	44	■ Report of the Consolidated Fatwa and Shari'a	83
■ Social Responsibility	46	Control Committee	
■ Non-Shari'a Compliant Gains	48	■ Report of the Independent Auditors	86
■ Banking Services	50	■ Financial Statements	90
■ Human Resources and Training	52		







# The Arab Islamic Bank



## About the Arab Islamic Bank

The Arab Islamic Bank (AIB) was established in 1995, and is a public shareholding company. It launched its banking operations early in 1996. AIB provides banking and investment services according to the principals of the Islamic Shari'a through its headquarters in Ramallah and AlBireh Governorate, its branches distributed across Palestine, its Representative Office located in the United Arab Emirates (Dubai), and its mobile branch "My Bank on the Go", which makes the total number of AIB's offices and branches through which it offers its services twenty-nine offices and branches. The Arab Islamic Bank does not have any subsidiary companies as of 31/12/2020.


## Our Vision

To establish and strengthen the use of Islamic banking as the first option in banking, play an effective role in the promotion of the Palestinian economy and the achievement of the solidarity (AlTakful) principle, observe the Islamic social objectives, and to provide high quality, competitive and modern Islamic banking services and solutions.

## Our Mission

AIB seeks to fulfill the diverse banking needs of clients in compliance with the principals of Islamic Shari'a, in a manner that meets or exceeds their needs and expectations, and in a manner that assures achieving the highest possible returns for the shareholder and depositors on a solid and sustainable basis. Moreover, AIB seeks to provide its Islamic banking services using modern technologies and communication tools to meet the requirements of constant development, innovation, competition, and diverse needs of clients. AIB employs the latest available technologies and applies the highest professional standards.

## Our Strategic Objectives

- To preserve and emphasize our Islamic banking identity;
  - To promote financial inclusion;
  - To promote the financing of individuals, and small and micro enterprises;
  - To enhance the bank's role in social responsibility.
- 







## Dr. Atef Alawneh

A Message from the Chairman of the Board

Our dear Shareholders;

May peace and God's mercy and blessings be upon you,,,

On my behalf and on behalf of the members of the Board of Directors, I am pleased to welcome you to the 25th annual General Assembly meeting of the Arab Islamic Bank. We were hoping that the Covid-19 pandemic was over by the time of this meeting. Covid-19 pandemic had a brutal effect of Palestine in 2020 on the social and economic levels, as most economic activities declined in their added value, which resulted in a 12% decline in the Palestinian economy, a significant drop in GDP per capita, and an increase in unemployment rates, thus dropping the level of general demand for the indicators of consumption and total investment. This coincided with the Israeli side's cessation of clearance transfers and a deficit in the government's budget, which was reflected on the payment of public sector employees' salaries at 50% and irregularly. This largely and directly affected the banking sector as a result of the borrowers' inability to pay their due installments, in conjunction with the procedures of the Palestinian Monetary Authority to impose a grace periods and postponements of financing for a period of 4 consecutive months, all these factors had a direct effect on the Arab Islamic Bank, resulting in losses due to the non-collection of financings profits. Furthermore, AIB's staff were affected by Covid-19 as numerous employees had the virus, so the Bank took several preventive measures to ensure the safety of its staff and customers and to operate according to the emergency plan, which was reflected in the slowdown in the workflow during the first months of 2020.

Despite all the challenges that Palestine in general and AIB in particular has faced, the Bank continued its innovation and creativity to maintain its work and serve the Palestinian economy by developing work mechanisms and contingency plans that reflected positively on the Bank's performance.

Allow me to present to you a summary of the Bank's major work and accomplishments, in addition to a summary of the Bank's audited financial statements for the fiscal year ending 31 December 2020.

The Bank has ended its twenty fifth year and is still forging ahead as one of the leading Islamic banking institutions in Palestine, as 2020 was a continuation in the Bank's journey towards the achievement of its objectives, which are part of its aspiring strategic work plan which reflect the Bank's ambitions and vision of the future, in which AIB seeks to become the first choice of the public. The achievement of the bank's objectives had a positive effect of the bank's performance results and its accomplishment of its annual objectives, mainly as the Bank ranked fourth among banks operating in Palestine, after it ranked sixth in 2019. With this ranking, AIB became the largest Islamic banking institution in Palestine, which was reflected in the bank's winning of four international awards as the best Islamic bank in Palestine for the year 2020, and the bank was able to achieve distinctive financial results to be the most growing bank in terms of asset for this year among all banks operating in the banking sector.

As for services and products, AIB continued its advancement through offering and developing Islamic banking services which resulted in the increase in its client base and in the bank's market share in the Palestinian banking sector. AIB's market share in terms of assets increased to 7.8% of the Palestinian banking sector.

The bank's BoD continues to work by the financial inclusion policy through its expansion and geographic spread by opening new branches and offices in Hebron governorate (Wadi AlHaria Office) and in Jerusalem the Capital of Palestine (Dahyet AlBarid Branch). Moreover, Jericho branch was expanded to an independent branch, and Gaza branch was moved to its new location in Palestine Square. AIB currently has 29 branches and offices, in addition to 61 automated teller machines (ATMs) spread throughout the Country. Moreover, the Bank initiated the preparation of other new branches and offices that will be inaugurated during 2021, including Ni'lin branch, a new branch in Jenin city, and the expansion of Qalqilia branch. With these new branches, the number of AIB's offices and branches will become 31 offices and branches, which will place the bank in a distinguished competitive position in the Palestinian banking market



# A Message from the Chairman of the Board

---

in general, and in the Islamic financing market in particular. Additionally, and with the restructuring of the bank's employees and the opening of new offices and branches in 2020, the number of employees increased to 640 employees, which is a 8.5% increase compared to 2019.

Financially, and despite the Covid-19 pandemic and the resulting lockdowns, AIB was able to increase its assets in 2020 by USD 285 million, reaching around USD 1.557 billion, which is a 23% increase. Clients' deposits also witnessed a growth of USD 272 million (27%) increasing to over USD 1.296 billion. As for direct financing, the bank's growth in this field increased by USD 187 million (25%), reaching around USD 945 million. Thanks to such excellent financial performance, AIB earned a pre-tax net profit of around USD 11 million, and an after-tax net profit of around USD 8 million, despite the allocation of USD 2.4 million for anticipated credit losses as a result of the financial and economic crisis affected by delayed government sector salaries, economic shutdowns, and the Palestine Monetary Authority's instructions to postpone installments to clients.

AIB has also adopted a policy that enhances customers' use of electronic services without the need to visit the branch and worked to develop the call center to provide more comprehensive and wider range of services to customers, enabling them to obtain service via phone directly or through approved electronic communication channels, in line with public safety and social distancing measures imposed due to Covid-19 pandemic.

The Bank was able to maintain moderate operating expenses during 2020, despite opening new branches and offices and developing some existing branches. This is due to the bank's ability to attract new clients and deposits, and increase direct financing and operational revenues. This will drive the growth of revenues and dividends, be they cash or stocks, to strike a balance between shareholder dividends and capital sufficiency. Currently, the bank continues to raise its paid capital from about USD 88.4 million to USD 100 million during the coming years. This comes as part of its strategic plan that aims at ensuring its compliance with all local and international control requirements and the relevant international instructions and standards.

As part of its commitment to its social responsibilities, the bank carried out many humanitarian and charitable activities, spending around half a million US Dollars during the past year. This amount represents 6.4% of the bank's net profit during the same period.

Finally, On behalf of the Board and shareholders, I would like to express our appreciation and gratitude to the Palestine Monetary Authority (PMA), Palestine Capital Market Authority (PCMA), Ministry of National Economy (MoNE), Palestine Exchange (PEX), security departments, and all ministries and government institutions for their cooperation and support. Thanks are also due to our loyal clients for the confidence they have in us. On our part, we vow to meet their expectations, be deeply committed to providing top-notch Islamic banking services that fulfill their needs and streamline their lives.

We would also like to take this opportunity to express our gratitude to the Consolidated Fatwa and Shari'a Control Committee, the General Manager, Mr. Hani Nasir, members of the Executive Management and our staff for their blessed efforts in accomplishing AIB's objectives. We also thank our shareholders for their trust and belief in the bank's BoD and Executive Management.

May Allah grant us all success in our journey towards realizing further progress, development and prosperity of our organization to promote its position in the banking sector, in a manner that serves our beloved country, our national economy and our divine Shari'a.

Dr. Atef Alawneh  
Chairman of the Board of Directors

Name	Membership	Company
Dr. Atef Kamal Alawneh	Chairman of the Board of Directors	A representative of the Bank of Palestine
Dr. Mohammad Mahmoud Nasr	Deputy Chairman of the Board	A representative of Palestine Investment Fund
Mr. Rushdi Mahmoud Al-Ghayini	Member of the Board	A representative of the Bank of Palestine
Mr. Salman "Mohammad Ta'ma" Qumailah	Member of the Board	A representative of the Bank of Palestine
Mr. Faisal Ghazi Al-Shawwa	Member of the Board	*A representative of the Bank of Palestine
Mr. Maher Jawad Farah	Member of the Board	A representative of the Bank of Palestine
Mr. Mohammad Awni Abu Ramadan	Member of the Board	A representative of ASWAQ Investment Portfolios Company
Mr. Shadi Adnan Al-Khatib	Member of the Board	A representative of ASWAQ Investment Portfolios Company
Mr. Sam Sami Bahour	Member of the Board	Independent Member
Dr. Safaa Naseraddin	Member of the Board	Independent Member
Mrs. Samar Zuhdi Nakhlah	Member of the Board	A representative of small investors

\* Mr. Faisal Ghazi Al-Shawwa: resigned on 31/05/2020

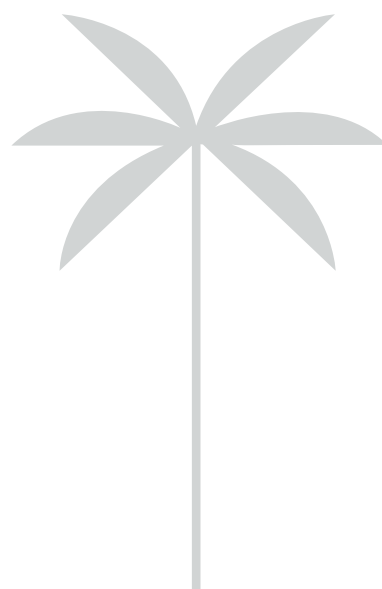


## Members of the Board of Directors

---



Years of Islamic Banking





## Dr. Atef Kamal Alawneh

Chairman of the Board of Directors

Representative of the Bank of Palestine Company

PhD in Economics, General Finance, Munich University, 1983

M.A. in Political Science, Munich University, 1979

M.A. in Economics, Munich University, 1977

B.A. in Economics, Munich University, 1975

Date of Birth: April 3rd 1949

Date of Membership: 2014

## Experience

Independent consultant for the Bank of Palestine's Board of Directors, 2009 - 2016

Part-time Professor in the M.A. program, al-Quds University.

General Manager, Palestine Capital Market Authority, 2005 – 2009

Deputy Minister of Finance 1994 – 2004

Professor of Economics, an-Najah National University, 1983 – 2003

## Memberships

Chairman of the Board of Directors of Grand Park Company 2019

Member in the General Assembly of Palestine Investment Fund 2019

Member of the Board of Sharikat Company, a Palestine Investment Fund Company 2019

Member of the Board of Jerusalem District Electricity Company, 2018 – present

Chairperson of the Directors Assembly / Northern International Industrial Company, 2016 – present

Member of the Board of al-Aqariya Commercial & Investment Co., 2015 – present

Member of the Board of Palestine Stock Exchange Co. / PSE, 2014 – 2017

Member of the Board of the Palestinian Road Accident Casualties Compensation Fund, and the Head of the Investment Committee, 2014 – 2017

Member the National Team for Social Security, 2013-2016

Member of the Board and Head of the Internal Audit Committee at Palestine Real Estate Investment Co. PRICO, 2009 –2015

Member of the National Committee for Governance and Head of the Technical Team, 2007

Member of the Boards of the Palestinian Investment Promotion Agency, the Palestinian Industrial Estates and Free Zones Authority, and Municipal Development and Lending Fund, since their establishment and until 2004

Chairman of the Board at the Banking Services Co., 1999-2001

Head of the Licensing Committee of Palestinian Certified Public Accountants, 1997-2005

Member of the Board of the Palestine Monetary Authority, 1997-2005

Member of the Board of Trustees of Al-Ibrahimeh College and Arab Studies Society, 1990-2001

Dr. Atef Alawneh is the author of tens of scientific articles and books, and has participated in tens of economic conferences, regionally and internationally.

# Members of the Board of Directors

---



## Dr. Mohammad Mahmoud Nasr

Deputy Chairman of the Board

Representative of Palestine Investment Fund

PhD in Economics (Industrial Economics) – Ohio State University – 1986

M.A. in Economics – Ohio State University – 1985

M.A. in Business Management (Marketing) - Wayne State University – 1982

BA. in Accounting - Beirut Arab University – 1969

Date of Birth: September 27th 1945

Date of Membership: 2017

## Experience

Professor of Economics, Birzeit University, 1994 – present

Dean of the Faculty of Business and Economics, Birzeit University, 1996-1999 / 2011-2014

General Manager, Palestine Economic Policy Research Institute (MAS), 2007 – 2008

Dead of the Economics Department, Yarmouk University, 1991 – 1993

Professor of Economics, Yarmouk University, Jordan, 1986 – 1994

## Memberships

Head of the Board of Trustees of Palestine Economic Policy Research Institute (MAS), 2018 – present

Member of the Board of Directors of Palestine Investment Fund, 2012 – present

Member of the Board of Directors of Sanad Construction Industries Company, 2016 – present

Chairman of the Board of Directors of Amar Real Estate Group, 2015-2019

Chairman of the Board of Directors of Grand Park Hotel, 2017-2019

Deputy Chairman of the Board of Jericho Agro-Industrial Park, 2012-2017

Chairman of the Board of Directors of Palestine Capital Market Authority, 2014-2015

Chairman of the Board of Directors of the Palestinian Governance Institute, 2011-2014

Board Member of the National Anti-Money Laundering Committee, 2008-2012

Member of the Central Elections Commission, 2008-2011





## Mr. Rushdi Mahmoud Al-Ghalayini

Member of the Board

Representative of the Bank of Palestine

BA in Economics and CS – The American University in Cairo

Date of Birth: May 26th 1962

Date of Membership: 2017

### Experience

General Manager of the Bank of Palestine

Risk Management, Good Governance, Credit Facilities and Banking Services

### Memberships

Member of the Board of Investbank in the Hashemite Kingdom of Jordan.

Member of the Board of the Palestinian Banking Institute

Member of the Board of the Palestinian Company for Cash and Valuables Transportation and Financial Services (AMAN).

Member of the Board of the Union of Arab Banks

Member of the Board of the Association of Banks in Palestine



## Mr. Faisal Ghazi Al-Shawwa

Member of the Board

Representative of the Bank of Palestine Group

BS in Architectural Engineering, University of Memphis, USA, 1992

M.A. in Business Administration - Virginia State University, USA, 2009

Date of Birth: February 4th 1968

Date of Membership: 2017

### Experience

General Manager of Al-Shawwa General Trading and Contracting Company – Palestine

### Memberships

Chairman of the Board of Al-Shawwa General Trading and Contracting Company – Palestine

Deputy Chairman of the Board Palestine Trade Center (Pal-Trade) – Palestine

Chairman of the Board of Megapharm Pharmaceuticals Company – Palestine

Deputy Chairman of the Board of Al Amal Company for Asphalt – Palestine

Member of the Board of Palestine Electricity Company – Palestine

Member of the Board of Ooredoo Company – Palestine

Member of the Board (Treasurer) of the Palestinian Businessmen Association – Palestine, 2005-2009

Member of the founding committee of the Palestinian Shippers Council – Palestine, 2006-2007

Member of the Engineers' Society (TBP) - USA

Member of the Palestinian Contractors Union – Palestine

Member of Engineers Union - Palestine

Member of the Palestinian Businessmen Association

# Members of the Board of Directors

---



## Mr. Shadi Adnan Al-Khatib

Member of the Board

Representative of ASWAQ Company for Investment  
M.A. in Financing and Investment, Western Sydney University, Australia

Date of Birth: August 7th 1976

Date of Membership: 2017

## Experience

Executive Director of ASWAQ Company for Investment  
Portfolio Manager at the Palestine Investment Fund, 2007 – present

## Memberships

Member of the Board of SANAD Construction Resources  
Member of the Board of Birzeit Pharmaceutical Company  
Member of the Board of the Arab Specialized Medical Center Company  
Member of the Board of Siniora Food Industries Company



## Mr. Mohammad Awni Abu Ramadan

Member of the Board

Representative of ASWAQ Company for Investment Portfolios

BA in Business Administration, Syracuse University, USA

Date of Birth: July 24th 1953

Date of Membership: 2017

## Experience

Chairman of the Board, Ooredoo Company, 2016 – present  
Chairman of the Board of the Water Sector Regulatory Council (WSRC)  
Minister of Planning, Palestinian National Authority, 2012-2014

## Memberships

Member of the Board of Palestine Investment Fund  
Member of the Board of Palestine Capital Market Authority, 2018-present.



### Mr. Maher Jawad Farah

Member of the Board

Representative of the Bank of Palestine

BS in Civil Engineering, Cairo University, Egypt, 1966

Date of Birth: March 21st 1945

Date of Membership: 2017

### Experience

Engineer in Société VIA Svelt (French Company),  
1967-1970

Engineer in the Consolidated Contractors Company,  
Kuwait, 1971-1977

General Manager and Partner in the Arabian Gulf Con-  
struction Company, Abu Dhabi, 1975-1977

General Manager of the Consolidated Contractors  
International Company, Kuwait, 1982-1997

Chairman of the Board of the International Company  
for Real Estate, Gaza, 1997-2007

### Memberships

Member of the Board of ABRAJ Investment & Devel-  
opment Company – Palestine



### Mr. Salman Mohammad Ta'ma Qumailah

Member of the Board

Representative of the Bank of Palestine

BA in Accounting, Ain Shams University, Cairo

Date of Birth: July 8th 1958

Date of Membership: 2017

### Experience

Thirty-six years of banking experience in the Bank of  
Palestine

# Members of the Board of Directors

---



## Mr. Sam Sami Bahour

Member of the Board

Independent Member

M.A., Executive Business Administration, Northwestern University and Tel Aviv University

BS in Applied Science, Computer Technology, Youngstown State University

Date of Birth: October 18th 1964

Date of Membership: Independent member since 2017

## Experience

Representative of many companies since 2003

General Manager, Applied Information Management (AIM) Ltd.

Co-founder and Chairman of the Board of the Americans for a Vibrant Palestinian Economy

Had a role in establishing the Palestine Telecommunications Company (Paltel)

Had a role in establishing the Arab Palestinian Shopping Centers Company PLC

He writes frequently on Palestinian affairs and has been widely published in leading outlets.

## Memberships

Member of the Board of Friends Schools 2017-2018

Former Member of Board of Trustees – Birzeit University, 2004-2010

Member of the Board of the Open Society Foundations (MENA Program)

Member of the Board of “Just Vision”

Member of the Board and Policy Advisor at Shabaka the Palestinian Policy Network

Former Member of the General Assembly (Presidential appointee), Palestine Investment Fund





## Dr. Eng. Safaa Naseraddin

Member of the Board

Independent Member

PhD in Electronic Engineering from École Supérieure Privée D'ingénierie, Université de Bordeaux, France, 2003

M.S. in Signals and Images Processing from École Supérieure Privée D'ingénieur, Toulouse, France, 1996

BS in Electronic Engineering from Al-Quds University, with distinction and honors, 1994

Date of Birth: May 5th 1969

Date of Membership: 2019

## Experience

Vice President of Jerusalem Affairs at Al-Quds University, 2014 – present

Minister of Telecom and Information Technology, making her the first woman to fill such position in the Arab world, 2012-2014.

Dean of Hind AlHusseini Collage for Women in Jerusalem / Al-Quds University, 2010-2012.

Consultant for the Minister of Telecom and Information Technology, 2009-2012.

Head of the Quality Unit at Wajdi Institute of Technology, 2004-2009.

A well-known leading Palestinian personality that has dedicated her time to make Palestine a better place.

Part-time Professor at Al-Quds University.

## Memberships

Member of the Board of Mada Internet Services Company, 2019 – present.

Founding member of Al-Quds Business Incubator, 2017 – present.

Member of the Scientific Committee at the Engineers Union, 2017 – present.

President of Fiber to the Home in the Middle East and North Africa (FTTH MENA) in MENA, 2016-2018.

Member of the Board of Education for Employment, 2015 – present.

Member of the Board of the Palestinian Incubator for Energy, 2014 – present.

Member of the Board of Alquds Fund and Endowment, 2014 – present.

Member of the team of Experts for Higher Education Reform, which is part of the European Union and Erasmus+ Projects, 2014 – 2019.

Member of The Arab-International Cooperation Committee, and Member of the Board of the Innovation Support Fund, 2013 – present.

Honorary President of the Palestinian Anti-Smoking Association and Health Education, 2013 – present.

President and Founder of Al-Rafic Alumni Association, 2013 – 2019.

One of the founders of the Palestine Open Source Community (POSC), 2009.

An active member in the Board of Directors of the Higher Council for Innovation & Excellence

Chairperson of the Committee of Exploration, Stimulation, Incubation and Experimental Development

Member of the Board of Girls in Technology. A volunteer in many other organizations that serve youth and women.

# Members of the Board of Directors

---



## Mrs. Samar Zuhdi Nakhlah

Member of the Board

Representative of small investors

BA in Accounting, Birzeit University, Palestine, 2001

MBA, Birzeit University, Palestine, 2007.

The American Express Leadership Academy at Thunderbird School of Global Management, USA, 2016

Date of Birth: May 7th 1980

Date of Membership: 2019

## Experience

Director of Administration and Finance, The Women's Centre for Legal Aid and Counselling (WCLAC), Palestine, October 2012 – present

Director of Administration and Finance, Palestine Economic Policy Research Institute (MAS), Palestine, July 2002 – October 2012.

Lecturer at Al-Quds University, September 2011 – January 2013

Auditor at El-Wafa & Partners Co. (KPMG), Palestine, 2001-2002.

## Memberships

Treasurer at the Palestinian Youth Association for Leadership and Rights Activation "PY-ALARA", 2015 – present.



Mr. Hani Salah Abdulqader Nasir General Manager

Nasir

Date of Birth: 12/2/1967

Date of Appointment: 16/1/2018

Education: M.A. and B.A. in Public Administration and Law, Maria Curie-Skłodowska University – Poland, 1993

Previous Work Experience: Manager of Jericho Branch - Bank of Palestine  
Manager of Hebron Branch - Bank of Palestine  
Regional Manager for West Bank Branches - Bank of Palestine

Memberships: Member of the Board at the Association of Banks in Palestine  
Deputy Chairman of the Board of the Palestinian Banking Institute



Mr. Ghassan Hashem Jabr Deputy General Manager - Operations

Date of Birth: 25/5/1964

Date of Appointment: 8/11/2015

Education: B.A. in Business Administration, Birzeit University

Previous Work Experience: The Arab Bank, from 1994 till 2015, Head of Central Operations Unit;  
Cairo Amman Bank, from 1990 till 1994.



Mr. Ihsan Kamal Omar Shaushaa Deputy General Manager for Gaza Branches

Date of Birth: 05/09/1963

Date of Appointment: 16/1/2018

Education: B.A. in Business Administration – Texas State University, San Marcos, USA, 1988

Previous Work Experience: Bank of Palestine, from 1991 till 2018

# The Executive Management



Mr. Maysara Hatim Salamah	Assistant General Manager for Financial Affairs
Date of Birth:	15/1/1981
Date of Appointment:	10/3/2013
Education:	MBA; B.A. in Accounting and Finance; Certified Public Accountant "CPA" from Colorado State, USA; Certified Management Accountant "CMA" from the Institute of Management Accountants (IMA); Arab Certified Professional Accountant "ACPA" from the Arab Society for Certified Accountants; Palestinian Certified Professional Accountant "PCPA".
Previous Work Experience:	Price Waterhouse Coopers, Auditing Senior Manager, from 2004 till 2013; Ernst & Young, Staff Auditor, from 2003 till 2004; Cairo Amman Bank, Chief Clerk, from 2002 till 2003.



Mr. Amjad Ghazi Jaabari	Executive Manager of IT Departments
Date of Birth:	18/8/1967
Date of Appointment:	11/10/1997
Education:	M.A. in International Management, the University of Glasgow, Scotland, Britain; B.A. in Business Administration – Université Ferhat Abbas, Algeria.
Previous Work Experience:	Bank of Jordan, from 1993 till 1994. Hebron University, from 1995 till 1997;



Mr. Fayez Shaban	Administrative Affairs Manager
Date of Birth:	2/8/1963
Date of Appointment:	2/11/1999
Education:	Diploma in Business Administration
Previous Work Experience:	Administrative banking experience for over 21 years





Mr. Mustafa Sharif Abu-Khaizaran      Networks and Systems Department Manager

Date of Birth:      26/4/1970

Date of Appointment:      03/02/2001

Education and Certificates:      M.Sc. in Computer Engineering, Birzeit University;  
B.S. in Electrical Engineering.

Previous Work Experience:      The Palestinian Central Bureau of Statistics, from 1995 till 2001;  
Samco Company, from 1993 till 1995



Mrs. Adeeba Abdullah Afana      Legal Affairs Department Manager

Date of Birth:      03/09/1974

Date of Appointment:      19/02/2001

Education and Certificates:      B.A. in Law, The University of Jordan, 1996.

Previous Work Experience:      Barrister, Adel Abu Diab Law Office, from 1998 till 2001;  
Intern, Hussein al-Shyoukhi Law Office, from 1996 till 1998.



Mr. Ahmad Abdulkarim Ayyad      Organization and Work Procedures Department Manager

Date of Birth:      5/10/1978

Date of Appointment:      01/02/2005

Education and Certificates:      M.A. in Quality Management, The Arab American University (AAUP), 2020;  
B.Sc. in CIT, Al-Quds Open University, 2004;  
Diploma in Programming and System Analysis, Al-Balqa Applied University 1997.

Previous Work Experience:      Bank of Jordan, from 1998 till 2004.

# The Executive Management



Mr. Ahmad Saleh Sartawi	Public relations and marketing manager
Date of Birth:	18/10/1980
Date of Appointment:	21/01/2006
Education and Certificates:	M.A. in Management and Marketing, The Arab Academy for Financial and Banking Sciences; B.A. in Marketing, an-Najah National University; Certified Islamic Banker Certificate (CIP); Diploma in Sales and Marketing Management, Cambridge.
Previous Work Experience:	Part-time Lecturer at Al-Quds Open University, from 2012 till 2103



Mr. Marwan Mohammad Badawi	SMEs Sales Department Manager
Date of Birth:	28/08/1966
Date of Appointment:	04/05/2008
Education and Certificates:	M.A. in Finance and Banking
Previous Work Experience:	Rafah Bank, from 2006 till 2008; Palestine Commercial Bank, from 1996 till 2006; Cairo Amman Bank, from 1994 till 1996.



Mr. Ammar Younis Khudairi	Banking Systems Department Manager
Date of Birth:	22/08/1970
Date of Appointment:	24/08/2008
Education and Certificates:	M.Sc. in Computer Science, Birzeit University; Higher Diploma in Computer Programming, Brilliants Institute, Bangalore, India; .Sc. in Computer Science, Bangalore University, India.
Previous Work Experience:	Palestine International Bank, 1996-2008; Cairo Amman Bank, 1994-1996.



Mr. Taha Mohamed Abdelrahman Abu Sariyya      Manager of the Anti-Money Laundering and Terrorism Financing Department

Date of Birth:      05/08/1968

Date of Appointment:      12/01/1997

Education and Certificates:      M.A. in Quality Management

Previous Work Experience:      Cairo Amman Bank, 1994-1997



Mr. Ibrahim Ismail Abu Abdo      Mr. Ibrahim Ismail Abu Abdo

Date of Birth:      01/05/1968

Date of Appointment:      22/07/2009

Education and Certificates:      M.A. in Business Administration;  
Higher Diploma in Banks Management;  
B.A. in Accounting.

Previous Work Experience:      Egyptian Arab Land Bank, 1998-2009;  
Jordan Kuwait Bank, 1995-1998;  
Bank of Jordan, 1994-1995.



Mr. Hassan Isam Sabri      Credit Department Manager

Date of Birth:      17/10/1966

Date of Appointment:      11/10/2009

Education and Certificates:      M.A. in Administrative and Accounting Sciences,  
an-Najah National University, 1999;  
B.A. in Finance and Banking, Yarmouk University,  
1989.

Previous Work Experience:      Arab Bank, UAE, from 2005 till 2008;  
Arab Bank, Palestine, from 1994 till 2005;  
The National Arab Bank, Riyadh, from 1989 till 1994.



Mr. Hatim Fawzi Soboh      Financing Control Department Manager

Date of Birth:      28/12/1970

Date of Appointment:      20/12/2009

Education and Certificates:      M.A. in Administrative and Marketing Sciences,  
The University of Jordan;  
B.A. in Finance and Banking, Yarmouk University.

Previous Work Experience:      Bank of Jordan, from 2005 till 2009;  
An-Najah National University, from 2003 till 2005;  
Bank of Jordan, from 1998 till 2003;  
Cairo Amman Bank, 1993-1998.

# The Executive Management



Mr. Ratib Abdullah 'Etyani	HR and Training Department Manager
Date of Birth:	15/11/1969
Date of Appointment:	12/05/2010
Education and Certificates:	M.A. in Business Administration, Birzeit, 2005; B. Sc. in Computer Science, An-Najah University, 1996.
Previous Work Experience:	Cairo Amman Bank, from 1996 till 2010; Part-time Lecturer at Al-Quds Open University, from 2007 till 2017.



Mr. Sa'id Miqdadi	Risk Management Department Manager
Date of Birth:	29/04/1973
Date of Appointment:	22/05/2010
Education and Certificates:	BA in Business Administration, Eastern Mediterranean University, Cyprus.
Previous Work Experience:	Rafah Bank, from 2006 till 2010; Jordan Ahli Bank, from 2003 till 2006; Grindlays Bank, from 2000 till 2003; Cairo Amman Bank, from 1996 till 2000.



Mrs. Fayrouz Fathi Thabaleh	Compliance Department Manager
Date of Birth:	24/09/1974
Date of Appointment:	18/08/2010
Education and Certificates:	B.A. in Law
Previous Work Experience:	Cairo Amman Bank, from 1997 till 2010.



Mr. Imad Mahmoud 'Issa	Manager of Financing and Collection Department
Date of Birth:	10/01/1972
Date of Appointment:	01/11/2010
Education and Certificates:	MBA, Birzeit University
Previous Work Experience:	Bank of Jordan, from 2008 till 2010; Al-Quds Bank, from 2005 till 2008; Cairo Amman Bank, from 1998 till 2005.





Mr. Abdullah Salih Hamad Real Estate and Supplies Department Manager

Date of Birth: 03/09/1964

Date of Appointment: 02/01/2011

Education and Certificates: M.Sc. in Civil Engineering;  
B.Sc. in Civil Engineering.

Previous Work Experience: Project Engineer at The Dome of the Rock Engineering Consulting Firm, Consulting Engineering Union – Amman, till 1994;  
Director of the Buildings Department, Palestine Telecommunications Company, from 1997 till 2010;  
Projects Manager at contracting companies, The Palestinian House, and the Contractors' Company, from 1994 till 1996.



Mr. Nizam Ali al-Zamil West Bank Branches Manager

Date of Birth: 20/08/1967

Date of Appointment: 19/07/2011

Education and Certificates: B.A. in Business Administration.

Previous Work Experience: 26 years of experience in banking.



Mr. Wasim Ahmad As'ad Haj As'ad Banking Operations Department Manager

Date of Birth: 11/05/1981

Date of Appointment: 20/08/2017

Education and Certificates: B.S. in Mathematics Applied To Economics, Birzeit University, 2004  
CIB Certificate

Previous Work Experience: Director of Foreign Operations at the National Bank from 2012 till 2017;  
Head of Operations Department at Jordan Ahli Bank, from 2010 till 2012;  
Head of Administrative Affairs division at Al Quds Real Estate Investment Company, from 2008 till 2010;  
Head of Tellers section at Palestine International Bank, from 2005 till 2008;  
Depository Officer at the Arab Bank, from 2004 till 2005.

## The Executive Management



Mr. Sulaiman Salem Sulaiman Irar	Treasury and Capital Markets Department Manager
Date of Birth:	18/06/1973
Date of Appointment:	01/03/2018
Education and Certificates:	B.A. in Business Administration, the University of Jordan, 1995.
Previous Work Experience:	Assistant Manager of the treasury Department, Bank of Palestine, from 2016 till 2018; Assistant Manager of the Treasury Department, Palestine Commercial Bank, from 2009 till 2016.



Mr. Qais Mohammed	Individuals' Sales Department Manager
Date of Birth:	24/09/1989
Date of Appointment:	10/04/2011
Education and Certificates:	B.A. in Business Administration, Birzeit University
Previous Work Experience:	Acting Manager of Direct Sales Unit, Arab Islamic Bank. Head of the Individuals' Credit Department at the Arab Islamic Bank.



Mrs. Linda Mahmoud al-Shaikh Yousif	Head of Shareholders Division
Date of Birth:	01/12/1972
Date of Appointment:	27/02/2001
Education and Certificates:	Diploma in Business Administration
Previous Work Experience:	Palestinian Central Bureau of Statistics, from 1995 till 2001.



# Islamic Banking

## Definitions:

Islamic banking consists of banking and financing institutions that aim at collecting money, investing it, and providing banking services that comply with the principals of the Islamic Shari'a. The investment operations of Islamic banks abstain from interest-based transactions in all its shapes and forms. Moreover, their banking operations are based on joint ownership, both private and public.

The main scope of operations of Islamic banking is in the fields of direct investment (trading), as well as indirect investment through the Islamic funding formulas, such as Mudarabah (Islamic speculation), Musharaka (partnership), Murabaha, Bay' AlSalam, Istisna'a (tooling), and Ijarah (renting) contracts.

Islamic banks offer all other banking services just as any other commercial banks, such as credits and guarantees; there are no differences between Islamic banks and commercial banks in this aspect.

Islamic banking is known to have contributed to the introduction of new work mechanisms different from those offered through traditional banking services, which have a great effect on the mobilization of savings and attraction of investment.





### The Emergence of Islamic Banking:

The Islamic banking industry emerged about six decades ago and transmitted quickly from the experimental phase to the expansion phase due to the increased awareness amongst Islamic banking clients and shareholders of the importance of the Shari'a-compliant financing as a vital component of the global banking system. Studies indicate that the total assets of Islamic banking has reached USD 2.88 trillion by the end of 2020, which almost matches the number recorded for last year, and it is expected that the total assets of Islamic banking will reach USD 3.69 trillion by 2024 as soon as the world economy heal from the financial crises resulting from Covid-19.

### Islamic Banking in Palestine:

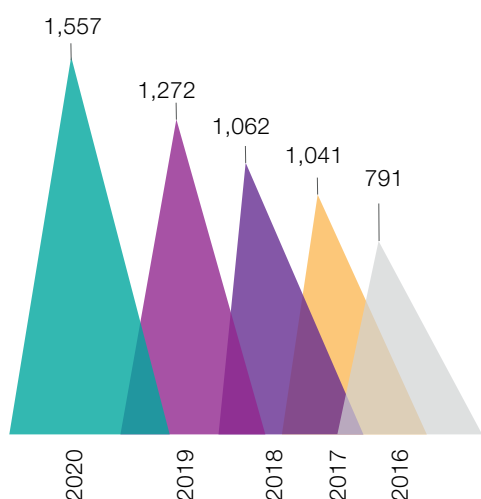
The starting point of Islamic banking in Palestine was the foundation of the Arab Islamic Bank in 1995. Currently, there are three operating Islamic banks out of the 14 banks operating in Palestine. Islamic banks have exerted extensive efforts to be able to integrate in the banking sector and to acquire a share in the banking market. Thus, the market share of Islamic banks in the Palestinian banking market hovered at around 16% in 2020. Studied indicate that the share of Islamic banks might exceed 25% of the total banking market, which signifies that there is a window of opportunity for the Islamic banking industry in Palestine to maximize its market share. This fact gives AIB a motive to formulate strategic objectives that aim at doubling the size of the bank in terms of client deposits, direct financing, and profit maximization, thus maximizing investment returns as the Strategic Plan 2020 comes to fruition.



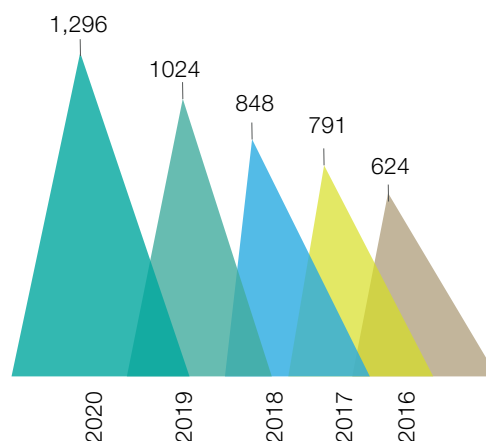
# Performance Indicators

AIB continued to grow significantly across all its financial indicators. The bank's operations and results doubled during the last 5 years; its assets increased by around USD 908 million, with a growth rate of (140%), direct financing increased by about USD 634 million, with a growth rate of (204%), and client deposits increased by about USD 779 million, with a growth rate of (151%). Moreover, AIB achieved net profit in the amount of USD 8 million in 2020.

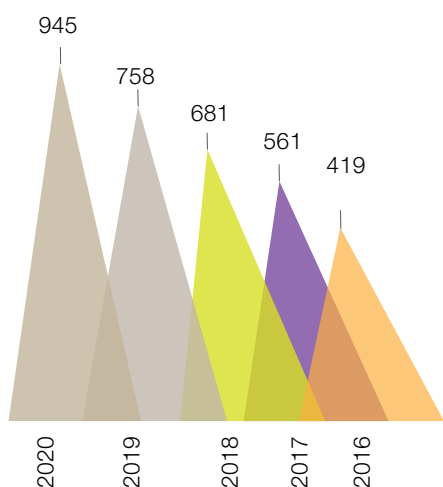
### Assets



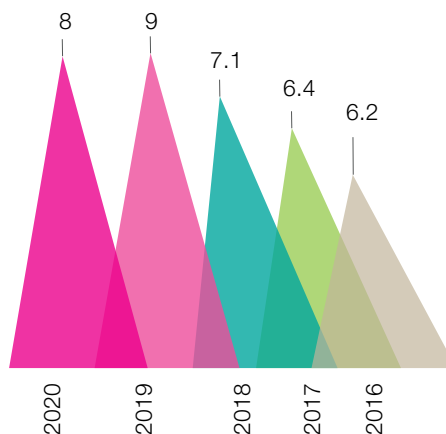
### Client Deposits



### Direct Financing (Facilities)



### Net Profit



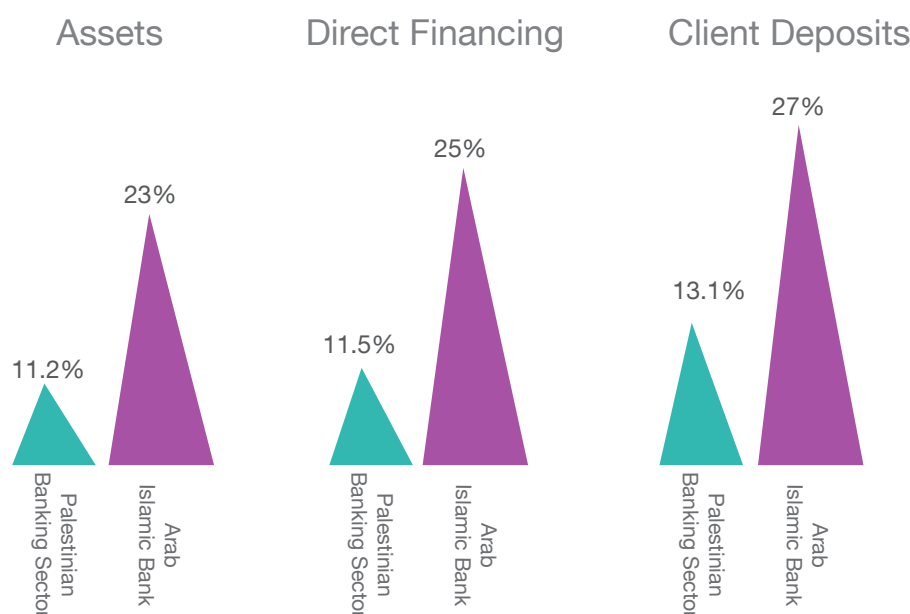
Amounts are in USD million.



## Competitive Position:

AIB constantly seeks to maximize its market share and to achieve the best results in terms of performance indicators, despite the harsh Palestinian economic, political and social realities and endless challenges. AIB was able to attain the best competitive results and a sensible growth in all financial aspects when compared with the performance of the banking sector. This growth is evident in the data that shows significant growth in AIB's market share of finances, client deposits, and profit in the Palestinian banking sector. When comparing AIB's performance with that of the banking sector, AIB's distinguished growth ability in assets, deposits and finances is clearly seen. This demonstrates the excellent performance of AIB on one hand, and its chance to grow and develop on the other. AIB's market share in assets increased by 23% in 2020, compared to 11.2% growth in the banking sector. AIB was able to acquire new market shares in financing, increasing its market share by 25%, while the financing of the banking sector increased by 11.5%. Regarding the increase in deposits, AIB's client deposits increase was double the increase in the banking sector, as AIB's share grew by 27% compared to 13.1% only for the marketing sector. This increase is attributed to the impressive results achieved by the "You save, we gave you opportunities" campaign for saving accounts that was launched by the Bank in 2020.

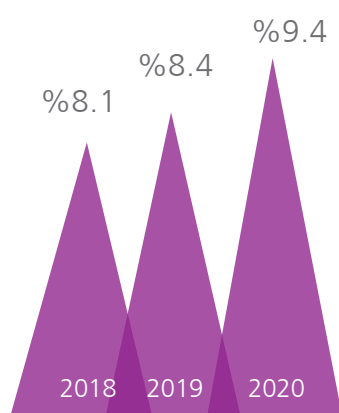
Item/Growth Rate	Assets	Direct Financing	Client Deposits
Palestinian Banking Sector	11.2%	11.5%	13.1%
Arab Islamic Bank	23%	25%	27%



# Increase in Market Share

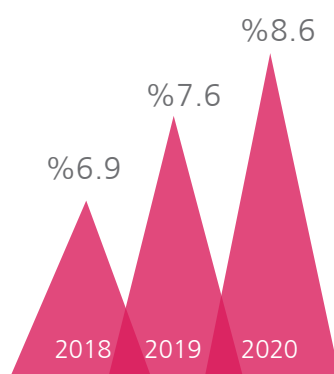
AIB continues to achieve outstanding growth results, and this year is considered an important year in the growth of the Bank's market share, as its financial results were reflected in the increase of its market share and its acquisition of new market shares in the Palestinian banking sector. This stresses the fact that the bank is continuously reinforcing its competitive capabilities and its efforts to become one of the leading Palestinian banks, and the largest Islamic financial institution in Palestine.

During 2020, the bank's assets increased to USD 1.557 billion, by which the AIB's market share in assets became 7.8% compared to 7.1% in 2019. AIB continued its growth in the deposits segment as well; it achieved a total of USD 1.296 billion, by which its market share increased to 8.6% compared to 7.6% in 2019. In terms of facilities, AIB's total facilities increased to USD 945 million, by which its market share became 9.4% compared to 8.4% in 2019.



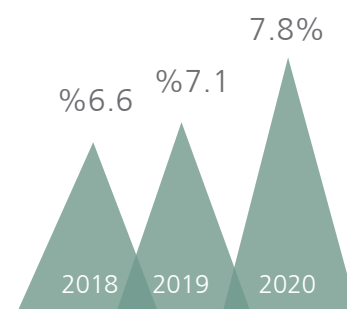
Facilities

945  
USD Million



Deposits

1.296  
USD Billion



Assets

1.557  
USD Billion

### AIB's Performance Indicators:

The development of AIB's distinguished performance resulted in a clear improvement in all of the financial indicators of the bank as shown in the table below:

Capital Structure Indicators	2019	2020
Liabilities and Rights of Unrestricted Investment Accounts Owners' Equity/Assets	90.83%	92.28%
Direct Financing/ Equity	650.06%	785.95%
Retained Earnings (Losses)/ Equity	6.72%	5.77%
<b>Money Flow Indicators</b>		
Client Deposits/ Assets	80.47%	83.22%
Direct Financing/ Assets	59.57%	60.68%
Direct Financing/ Client Deposits	74.03%	72.91%
<b>Profitability Indicators</b>		
Financing and Investment Revenues/Total Revenues	98.53%	105.05%
Return on Assets	0.77%	0.57%
Return on Equity	7.98%	6.77%
<b>Volume Indicators</b>		
Average Assets per Branch	63,569,419	70,797,630
Average Client Deposits per Branch	51,178,068	58,919,036
Average Direct Financing per Branch	37,886,451	42,956,812

With twenty five years of dedication and determination, one generation passing the mission to another, we continue to give and grow. We approach new advancements that are in harmony with the existing lifestyle and the latest technological advancements. We continue to grow by following the directions of AIB's Board of Directors that seeks to realize a better future for Islamic banking.

Our new logo design represents the bank's vision and goals, reflecting the new concepts of modern banking services and programs.

### General Look of the Logo:

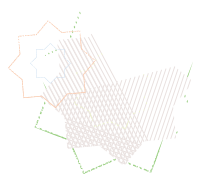
Speed, technology, strength, and wisdom, all depicted in an image that symbolizes an ancient symbol of the Islamic Shari'a. The new logo reveals the "al-Buraq" creature, due to our belief in the importance of promoting Islamic banking.

### What is Al-Buraq?

Al-Buraq is the creature that the Prophet Muhammad –PBUH– rode on the Night Journey to al-Aqsa Mosque. Linguistically, "Al-Buraq" stems from the word 'Barq', which means lightning, to indicate the speed of the creature. Other narratives argue that it was called "Al-Buraq" reference to its bright and sparkling colors.

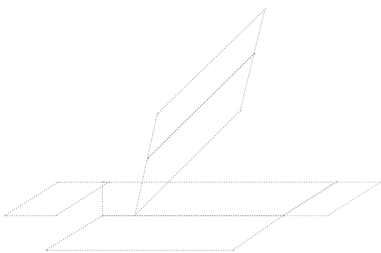
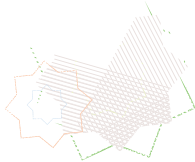
### The Colors of the Logo:

We mixed five colors to resemble five aspects of the bank: green symbolizes youth and energy; yellow stands for passion and modernism; grey represents balance and sustainability, and purple is often associated with wisdom and power. Finally, the orange color reflects our ongoing pursuit of innovation.



# Board of Director's Report

The Logo



# AIB's Branches and ATM Network

In 2020, AIB expanded its network of branches and ATMs by equipping and opening new branches, which are:

- Dahyet AlBarid Branch – Jerusalem
- Wadi AlHaria Office - Hebron

With these new branches, the bank's Representative Office in the UAE (Dubai), and its mobile branch "My Bank on the Go", the scope of AIB's network increases to 29 branches and offices, in addition to 61 Automated Teller Machines (ATMs) distributed across the different Palestinian governorates.

## ■ Jenin

Jenin Branch  
Arab American University Office

## ■ Tulkarem

Tulkarem Branch  
Attil Branch

## ■ Qalqilia

Qalqilia Branch

## ■ Nablus

Faisal Road Branch  
Sufian Road Branch

## ■ Ramallah & AlBireh

AlBireh Branch  
Ramallah Branch  
Bitunia Branch  
AlMasyoon Branch  
Al-Rayhan Office  
Birzeit Office

## ■ Jerusalem

AlAizariyah Branch  
AlDahya Branch / Jerusalem

## ■ Jericho

Jericho Branch

## ■ Bethlehem

Bethlehem Branch  
Handaza Office - Industrial Zone

## ■ Hebron

Hebron Branch  
AlHaras Branch  
Dura Branch  
Yatta Branch  
Wadi AlHaria Office

## ■ Gaza Strip

Gaza Branch  
AlNusairat Branch  
AlRimal Branch

## ■ Khan Younus

Khan Younus Branch

## ■ Representative Office –

Dubai United Arab Emirates

## ■ My Bank on the Go – Mobile Branch

## Dahyet AlBarid Branch – Jerusalem





29 branches  
and offices



# Advanced Services and Products

The development of existing products and adding new products is one of the major challenges facing institutions in general. It is the process that governs the development of an institution and the expansion of its client base. This is done through introducing new competitive products to reach new clients, as well as developing and enhancing the existing products and offering new features to existing clients in order to maintain them and increase their loyalty, and reach new clients.

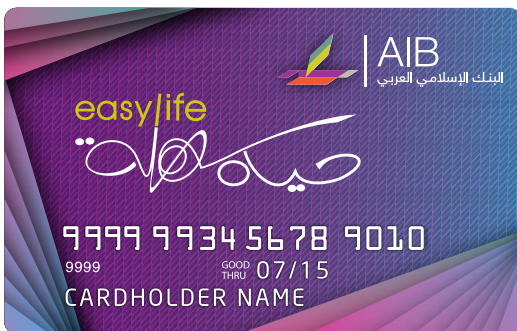
At the Arab Islamic Bank, the internal environment was mainly developed to enable the bank to evaluate customer satisfaction and analyze their needs and desires on one hand, and to enhance the bank's ability to implement and launch new products in line with the best international practices on the other.

The bank's performance indicators are monitored throughout the year, and are regularly compared with the general performance indicators of the banking sector. Accordingly, the necessary recommendations are issued to enhance and develop the bank's performance, to follow up on the implementation of the budget of the branches and departments, and to create an integrated database to meet the needs of beneficiaries inside and outside the bank. Moreover, the available data and information is analyzed and compared with the surveys implemented over various periods, statistical bulletins and reports are documented, customer satisfaction is assessed in every possible way, both directly and indirectly (such as mystery shoppers), short and long term action plans to address the bank's needs from various resources are created, and the necessary technical specifications and requirements for such plans are defined.

In 2020, AIB developed numerous new products and services and many of them were launched in the same year, and another part of the services will be launched in 2021. The following products are the main products that were developed and launched in 2020.

### Easy Life Card:

The “Easy Life Card” is the latest and best Islamic installment card, which provides installment service for purchases directly with approved points of sale, quickly and easily, without paperwork procedures or the need to visit the bank’s branches and without commissions. There are 3 types of cards according to the installment period, which are 12 month, 24 months and 36 months cards. Additionally, the owner will have the option to issue sub-cards (additional cards) for family members.



**36**  
**months**

**24**  
**months**

**12**  
**months**



**Easier Life ... Easier Installments**

**and without commissions**

## Instant Card Issuing Service

The instant card issuing service through the Bank's branches enhances the concept of speed in banking services. Through this service, the customer can open a new account and issue a card at the same time and receive it directly or replace the old card or issue a replacement for a lost card without the need to submit a request and wait for extended periods.



## Pay Wave Service

The Pay Wave Service enables users to pay through their cards without the need to insert the card inside the machine located at the points of sales. This service saves time and effort as the payment is executed in a record time and faster than using traditional cards that do not support this feature.

# Savings Campaign – “You save, we gave you opportunities”

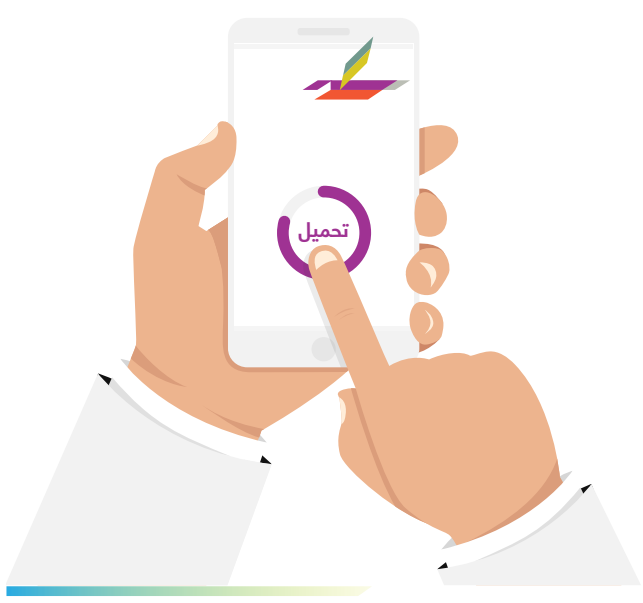
The Bank launched a competitive saving campaign in 2020, which is considered the best campaign in the banking sector launched during the year in light of the difficult economic conditions that face Palestine in general and the banking sector in particular as result of the recurring lockdowns that aim at limiting the spread of coronavirus.

The campaign offered valuable prizes for clients and contributed to attracting new clients. There were draws for weekly prizes in the value of ten thousand Shakles and a grand prize on quarter-million Shakles. The campaign was distinguished by honoring clients who have been dealing with the Bank for over a year, as each client was given an additional opportunity to win for each year that has passed on his/her account at the Bank.



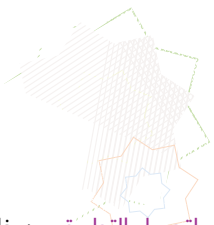

## “Stay at Home” Campaign

The “Stay at Home” campaign is related to the “Mobile Bank” Application. The campaign aims at encouraging clients to use electronic bank services more often, and at reinforcing the concept of digital banking. The Mobile Bank application, offered by the Arab Islamic Bank, provides all the banking services that a client needs without the need to visit the Bank’s branches. This campaign was launched in conjunction with the declaration of the state of emergency following the Covid-19 (Corona) pandemic, in order to facilitate the lives of clients by performing their banking transactions without leaving their homes, thereby maintaining the movement of the economic wheel. Further, the campaign included cash prizes in the value of \$500 for each prize.



**Download the Mobile Bank application**  
And enter the draw  
**\$500** each week

And benefit from the available e-services



ARAB ISLAMIC BANK

Google play App store

لتحميل التطبيق من خلال



### “Easier Insurance with Easier Installments” Campaign:

The “Easier Insurance and Easier Installments” campaign offers a quick and easy installment process for insuring vehicles over a period of 12 month, in cooperation with Tamkeen Insurance Company. Installments are made by using the Easy Life card at any of Tamkeen Company's branches instantly and without any commissions, and without any paper work or the need to wait for approvals. This service is a method to facilitate the process of vehicles insurance for clients, to save time and effort, and to enhance the use of cards and e-services, and to enhance the Bank's position as the first choice for the public.

Easier Insurance  
and Easier Installments

With  
easy/life  
حياة  
card

قسّطوا  
تأمينكم

Without commission

Without first payments

12 قسط / مجازة من هيئة الفتوى الشرعية

# Global Awards

The Arab Islamic Bank has won numerous prizes, which were given to the Bank as result of its performance and excellence in providing Islamic banking services. The most remarkable prizes won by the Arab Islamic Bank are:

## 2020

- “The Best Islamic Bank in Palestine”, awarded by “Global Finance” Magazine.
- “The Best Islamic Bank in Palestine”, awarded by “EMEA Finance” Magazine.
- “The Best Islamic Bank in Palestine”, awarded by the “World Finance” Magazine.
- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN),

## 2019

- “The Best Bank in Palestine”, as ranked by “The Banker” Magazine;
- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN), which is specialized in matters related to Islamic banks;
- “The Best Islamic Bank in Palestine”, awarded by the “World Finance” Magazine.

## 2018

- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN),
- “The Best Islamic Bank in Palestine”, awarded by the “World Finance” Magazine.

## 2017

- “The Strongest Bank in Palestine” Award, by the Union of Arab Banks;
- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN),

## 2016

- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN), which is specialized in matters related to Islamic banks;

## 2012

- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN), which is specialized in matters related to Islamic banks;

## 2011

- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN), which is specialized in matters related to Islamic banks;

## 2010

- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN), which is specialized in matters related to Islamic banks;

## 2009

- “The Best Islamic Bank in Palestine”, awarded by the Islamic Finance News (IFN), which is specialized in matters related to Islamic banks;

## Proud of Our Awards

A Palestinian Bank with an international vision  
The best Islamic bank in Palestine



**The Banker**  
GLOBAL FINANCIAL INTELLIGENCE SINCE 1926



# Social Responsibility

The Arab Islamic Bank is always keen to be at the forefront of organizations with high commitment to its social responsibility in all fields as part of the bank's vision and plans to carry on its contributions and participations in all social activities to promote the development of the Palestinian society, on the institutional and individual levels alike. AIB constantly seeks to support all segments of the Palestinian society, so as to play a key role in the development of the society.

During 2020, the share of the bank's social contributions to support health, development and relief was the largest in light of the Covid-19 pandemic. The aim of these contributions is to enable the local society and the government to face the pandemic through supporting the health sector and help through donations to Waqfat Izz fund.

The total amount of contributions offered to the community in 2020 amounted to around half a million US Dollars.

Category	Contribution Amount (\$)	The number of institutional partnerships is 25 institutions, in addition to hundreds of individuals and families.
Education	5,000	
Development	88,148	
Culture	72,100	
Health	171,670	
Women	3,830	
Relief	141,243	
Entrepreneurship and Youth	5,000	
Total	486,991	

The bank follows approved procedures to manage social responsibility, starting from the receiver of the request until obtaining the approval of the top management on the request. These procedures guarantee integrity and precession, and to provide the highest number possible of aids. The procedures of managing social responsibility are manifested in the following steps:

- Receive applications through the bank's branches;
- Validated submitted applications, in terms of requirements and conditions;
- The request is studied by the Public Relations and Marketing Department;
- Inform all concerned parties; and
- Payment of donations.

# Board of Director's Report

## Social Responsibility



From the tour of the bank's mobile branch "My Bank on the Go" to the villages west of Ramallah as part of the Bank's efforts to provide its ATM services to all citizens upon the declaration of the state of emergency and lockdowns.



The Arab Islamic Bank participates in a tree planting campaign in the roads of Hebron city.



Half a million Shakles from the Arab Islamic Bank to the Ministry of Social Development as part of the Bank's contribution to "Waqfat Izz" fund.



The Arab Islamic Bank sponsors the Fifth National Forum under the title "Creativity and the Pandemic" in partnership with the Higher Council for Innovation and Excellence



# Non-Shari'a Compliant Gains

Non-Shari'a Compliant Gains are all gains attained through sources or methods prohibited by the provisions and principles of Islamic law, or that resulted from some errors in implementation according to what is decided by the Bank's Fatwa and Shari'a Monitoring Committee. The competent committee is the committee responsible for studying each request, making the recommendation and the appropriate decision, which is then presented to the general manager and then to the Fatwa and Shari'a Monitoring Committee, to be disbursed to the parties in need through payment to the supplier.

Education	35,746
Development	20,823
Sports	603
Health	7,000
Women	14,830
Relief	6,324
Children	3,492
Total	88,819





The Bank follows an approved policy for the management of its social responsibility, starting from the competent committee, which is formed from the (Public Relations and Marketing Department, the Compliance Department, the Finance Department, the Administrative Affairs Department, and the Human Resources Department) to guarantee integrity and precession, and to cover the most prominent needs of the society and support its development. The process of managing the disbursement of Non-Shari'a Compliant Gains is performed according to the following steps:

Receive applications through the bank's branches;

Validate submitted applications;

Study of the application by the competent committee at the Bank;

Obtain the opinion and approval of the Consolidated Fatwa and Shari'a Control Committee;

Inform all concerned parties;

Payment of donations to providers directly.



# Banking Services

## Retail Financing Programs

The Arab Islamic Bank provides several comprehensive financing programs for individuals to meet their various needs in a manner that complies with the provisions of the Islamic Sharia. The bank enters into agreements and memoranda of understanding with local community organizations to provide competitive offers to various community segments. The Retail Financing Department offers 5 basic financing programs, which are:

### Car Financing:

Through the Cars Program, AIB finances all types of new and used cars (car age must be less than five years). Clients can also utilize the agreements signed between the bank and all automobile companies in Palestine, where the percentage would reach up to 100% of the car price. Furthermore, the program enables clients to find solutions and the appropriate financing procedures to all segments of the society (with or without salary), in compliance with the Sharia laws.



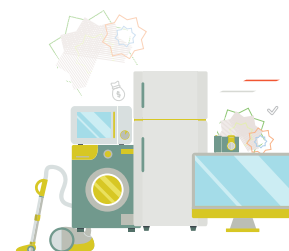
### Rent-to-Own:

This program allows clients to plan for the future and take the appropriate decisions to opt for the house of their dreams that fits their income. The bank owns the real estate, then leases it to the client for specified installments, where the ownership of the property is transferred to the payer upon the payment of the last installment. This program includes the financing of apartments, shops, or any property the bank can own and lease to the client. The approach and the program herein are implemented in accordance with the instructions of the Palestine Monetary Authority and in compliance with the Sharia laws.



### Commodity Financing:

A program that provides innovative solutions for clients to serve their personal and professional needs. Through this program, the bank buys the product desired by the client, to then sell it to the clients for easy and smooth installments, with a competitive profit margin. This service is offered under the Murabaha approach. Also, this service allows the client to benefit from the Musawamah (Islamic bargaining) program, according to the special agreements signed between the bank and different companies.



### Gold Guarantee Based Financing:

This program allows clients to obtain Murabaha financing smoothly and straightforwardly without the need for warrantors. In addition, this service assures the safe security of the offered gold without the need to exchange it. This financing option is implemented in compliance with the Islamic Sharia.



## Istisna'a Financing:

The bank manufactures the houses or commodities chosen by the clients according to their personal preferences. Thus, clients are able to finish their houses, build a new homes, or create their commodities and pay the due amount according to either Installments-based Istisna'a or "parallel" Istisna'a. AIB's Instina'a Financing program is compliant with the provisions of the Islamic Sharia.



## Small and Medium Enterprises (SMEs) Financing Programs:

AIB considers the small and medium enterprises (SMEs) sector as one of the most important and promising economic sectors in Palestine. This sector treasures a great future and potential to contribute to the overall Palestinian economic development based, as its general contribution to the GDP exceeds 50%. Thus, the bank's SME Financing Department takes on an added importance, as it provides opportunities for necessary financing and appropriate consultations for this segment through offering flexible banking and financing services for all SME types, all of which are compliant with the principals of the Islamic Sharia.



## Corporates Financing Programs:

The Arab Islamic Bank partners with major companies in Palestine to contribute in the development and building of the Palestinian economy. AIB offers a wide array of innovative solutions that are compliant with the principals with the Islamic Sharia, including Murabaha, Mudarabah, Musharakah, Istisna'a, and rent-to-own options to large corporates through the financing of working capital, raw and production materials, assets, machinery and equipment, real estate, and industrial and commercial projects. The bank also offers external trade services represented by letters of credit, collection policies and guarantee letters as per the nature of the client company activity given achieving the best results for all parties.

The team of Corporate Banking Relations Managers at AIB's branches, which has extensive experience in different fields and areas, works alongside the clients to meet their short-term and long-term banking requirements and needs. These advantages are given to clients by providing them with all needed information as well as the proper financial and professional consultation.



## Treasury and Financial Markets:

Through its Treasury Department, AIB continued to provide its clients with Sharia compliant financial services for the best and most competitive prices. The Treasury Department continued to offer currency exchange services, as well as the investment and savings deposit services. Moreover, the Treasury Department managed to attain good results in the management of cash flow, especially under the difficult market conditions and the challenges related to the availability of cash flow.

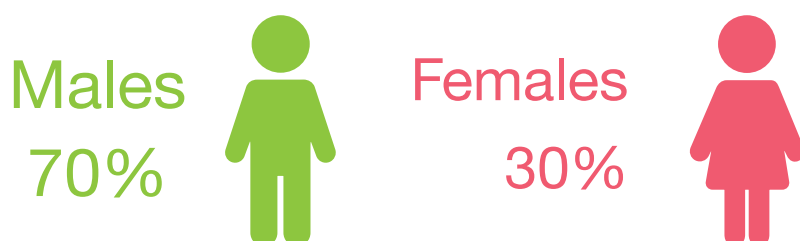
The Department continued to achieve rewarding returns through investing in the capital market, which reflected on the department's performance as vividly shown in its ability to achieve excellent growth rates.



## Human Resources and Training

The Arab Islamic Bank is distinguished by its human cadre which it surrounds with care and attention as it plays a vital role in achieving the bank's goals. The bank's cadre include some of the finest and most competent specialists in the various fields of banking. Human resources are carefully and efficiently recruited through planning, selection, training, motivation, evaluation, and the provision of an appropriate work environment.

With the increase in the number of the bank's branches and its eagerness to provide new services and products to its clients, the number of AIB's employees increased from (596) employees at the end of 2019 to (643) employees at the end of 2020. These numbers include both male and female employees. Females constitute 30% of the total number of employees, after excluding the non-classified group, whose number is about 65.



The bank's employees are distributed among the headquarter and branches as follows:

	Number of Employees 2019	Number of Employees 2020
Headquarters	235	240
Offices and Branches	361	403
Total	596	643

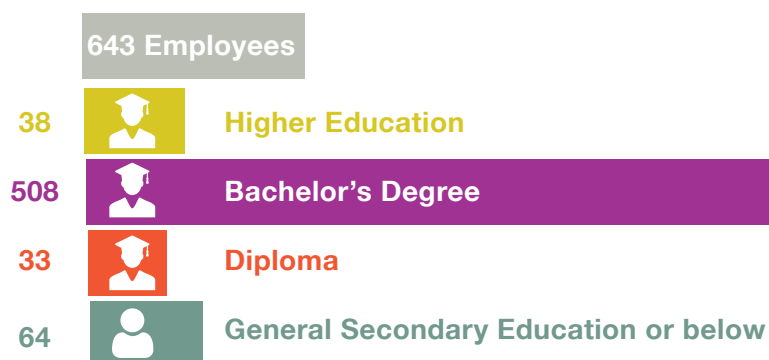
In its employment process, the bank focuses in attracting the most competent individuals with the needed qualifications, whether university graduates or those with distinguished expertise. The number of employees with university degrees (Bachelor's degrees and higher) has increased to become (546) employees by the end of 2020, which forms 85% of the total number of employees, compared to (509) employees by the end of 2019.

The following table shows the distribution of employees according to their educational degree in the mentioned years:

Educational Qualification	Number of Employees 2019	Number of Employees 2020
Higher Education	34	38
Bachelor's Degree	475	508
Diploma	32	33
General Secondary Education or below	55	64
Total	596	643

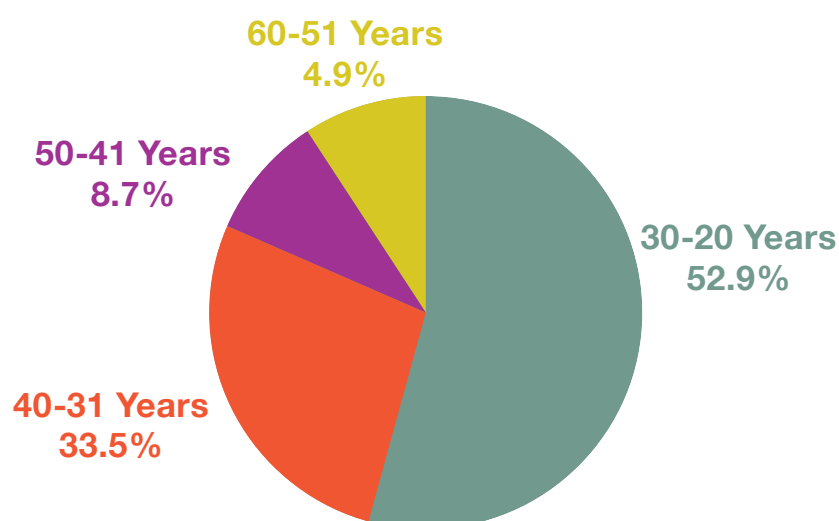


# Human Resources and Training



The Arab Islamic Bank is proud of its cadre which consists of mostly youth, as most its employees are in the youth age segment. AIB's employees are distributed as below:

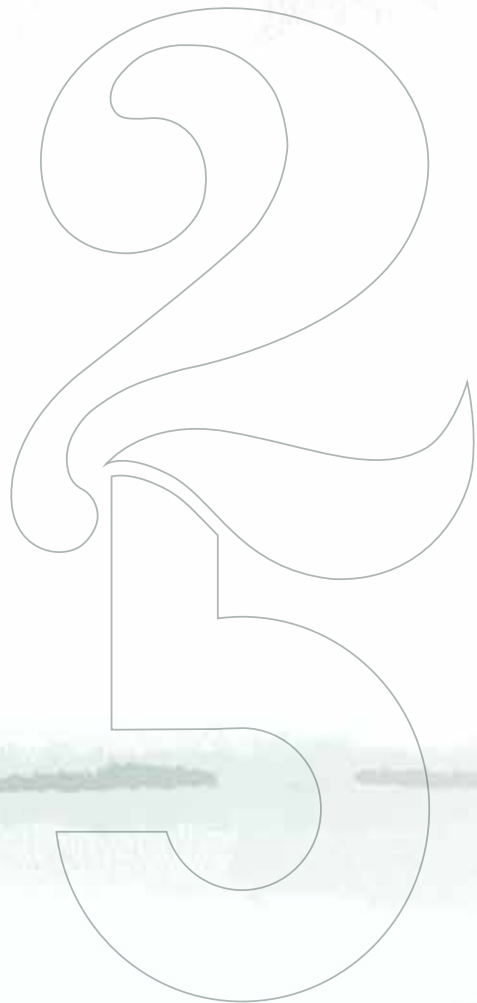
Age Segment	Percentage from total employees
20-30 years	52.9%
31-40 years	33.5%
41-50 years	8.7%
51-60 years	4.9%
Total	100%





Furthermore, the Bank's management and the Human Resources and Training Department constantly seek to promote a positive work environment through organizing different events, social activities, and recreational activities, in an effort to build a stronger bond between employees. Such activities include giving out gifts on holidays and feasts, giving out gifts to female employees on mother's day and International Women Day. Moreover, the Bank has organized a medical check-up day for its female employees during the pink month to raise awareness about breast cancer, in cooperation with the Health Directorate. During the Covid-19 pandemic, and out of concern for the health of employees, a special gift was distributed by the Social Committee to each employee, consisting of sterilization care products, to support the employees in facing the virus.

AIB is proud of the greatly responsible procedures that it followed during the outbreak of the Coronavirus, which aimed to provide the best means of comfort and safety to employees while ensuring the continuity of providing the best services to its clients. These procedures included setting sanitary and preventive measures that provide a safe work environment for employees and clients, and the large cooperation with employees in management their work remotely in order to maintain their safety according to a pre-prepared emergency plan. Moreover, special attention was given to female employees by giving paid leaves that enabled them to manage the affairs of their children in light of the closure of schools and nurseries during the first months of the pandemic.





# Human Resources and Training

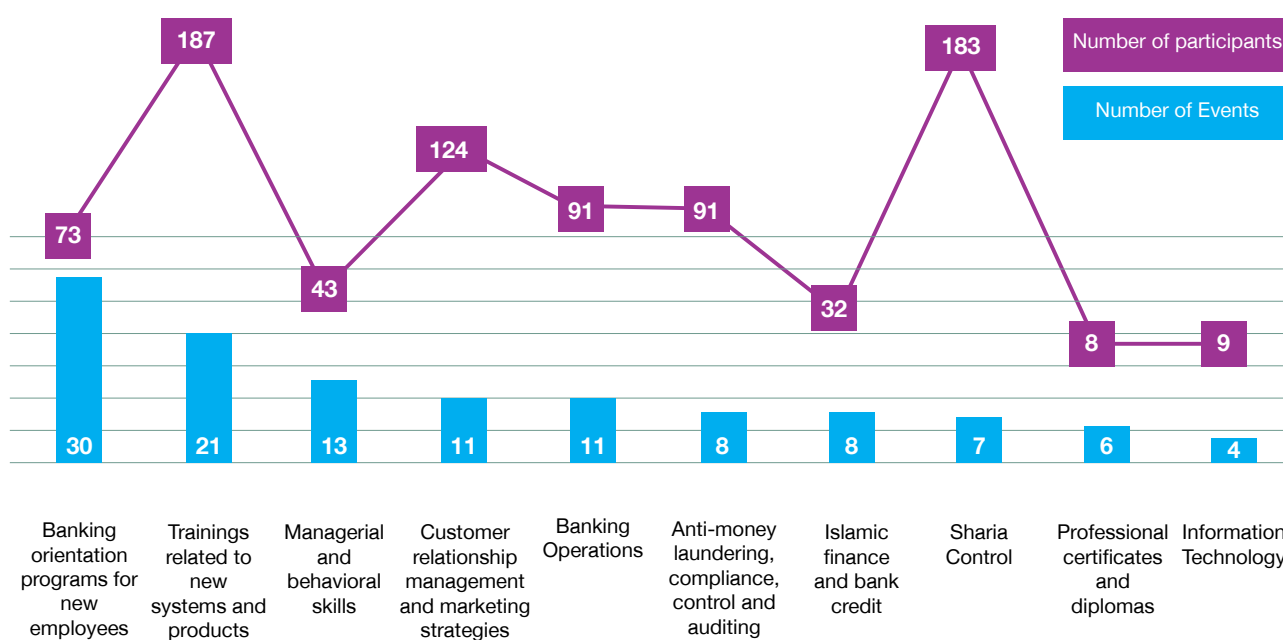
## Qualification and Training

AIB management gives special attention to developing and investing in its human resources. As it believes that the excellence and growth of the Bank is the result of the development of the performance and abilities of the employees in a manner that corresponds to the Bank's aspirations and its strategic goals, and for staying ahead in the competition in the Palestinian banking market.

In continuation of the human resources development approach that the bank follows, and due to the importance of human resources as a main element of success, and in light of the health conditions related to Covid-19 pandemic throughout 2020, most training programs were held through visual communication tools and e-platforms such as (Zoom, Webex, Teams) with great success. These training programs have attained the major goals of the annual training plan. During 2020, 119 training courses and activities were held, and 841 employees from the different departments and branches benefited from these training programs and activities. The total number of training hours was 1177 training hours distributed as follows:

## Distribution according to Training Filed

Training Field	Number of Events	Percentage from total Trainings	Number of participants	Percentage from total employees (645)
Managerial and behavioral skills	13	10.92%	43	6.66%
Islamic finance and bank credit	8	6.72%	32	4.96%
Sharia Control	7	5.88%	183	28.37%
Banking orientation programs for new employees	30	25.21%	73	11.31%
Banking Operations	11	9.24%	91	14.10%
Customer relationship management and marketing strategies	11	9.24%	124	19.22%
Anti-money laundering, compliance, control and auditing	8	6.72%	91	14.10%
Information Technology	4	3.36%	9	1.36%
Professional certificates and diplomas	6	5.04%	8	1.24%
Trainings related to new systems and products	21	17.64%	187	29%
<b>Total</b>	<b>119</b>	<b>99.9%</b>	<b>841</b>	<b>130.3%</b>



Below is a classification of the implemented training programs according to the nature of the activity and the place of implementation:

Training Activity	Number of Courses / Workshops	Number of Training Hours	Number of Employees / Trainees with Repetition
Internal Training Activities	62	252	543
Local Training Activities	38	803	224
Local Workshops	11	55	46
External Training	8	67	28
<b>Total</b>	<b>119</b>	<b>1177</b>	<b>841</b>

Furthermore, in compliance with the requirements of the control authorities and the bank's development plan which aims at placing the bank in the suitable position in the banking sector, which requires investment in professional programs and certificates according to the requirements of the control authorities, the areas of investment have emerged in several core aspects as follows:

- Investing in professional certificates in the banking filed, especially for regulators. Through this investment, a group of employees were able to obtain professional certificates throughout the year. Some of the most important certificates are:
  - Certified Compliance Specialist Certificate (CCS)
  - Certified Sharia Adviser and Auditor Certificate (CSAA)
  - Certified Anti-Money Laundering Specialist Certificate (CAMS)

- Investing in training programs that support the bank's compliance with the instructions of internal and external control bodies through conducting internal training workshops and participating in external programs (local and international) in the fields of Sharia control, risks, compliance and quality, as well as staying up-to-date on the latest developments in the field of anti-money laundering and terrorism financing.

- Investing in developing the performance of all project and corporate finance employees in the Bank's general administration and branches (RMs) to support the project of applying the new structure in the West Bank branches through an intensive program called "VIP Customer Relationship Management". The project was implemented on three stages (beginner, intermediate and advanced), which aims at: supporting and enhancing the capabilities of projects and corporate finance employees in the bank's administration and branches by developing behavioral and sales skills, as well as financial and banking skills, to enable them to manage the relationship with clients and manage their files efficiently.

- Investing in the support of opening new branches through implementing the "Baking Qualification Program" for a group of new employees in the bank's new branches that were opened during 2020 (Jerusalem and AlHaouz), in addition to the new employees of the middle and south areas branches to develop their professional skills and knowledge.

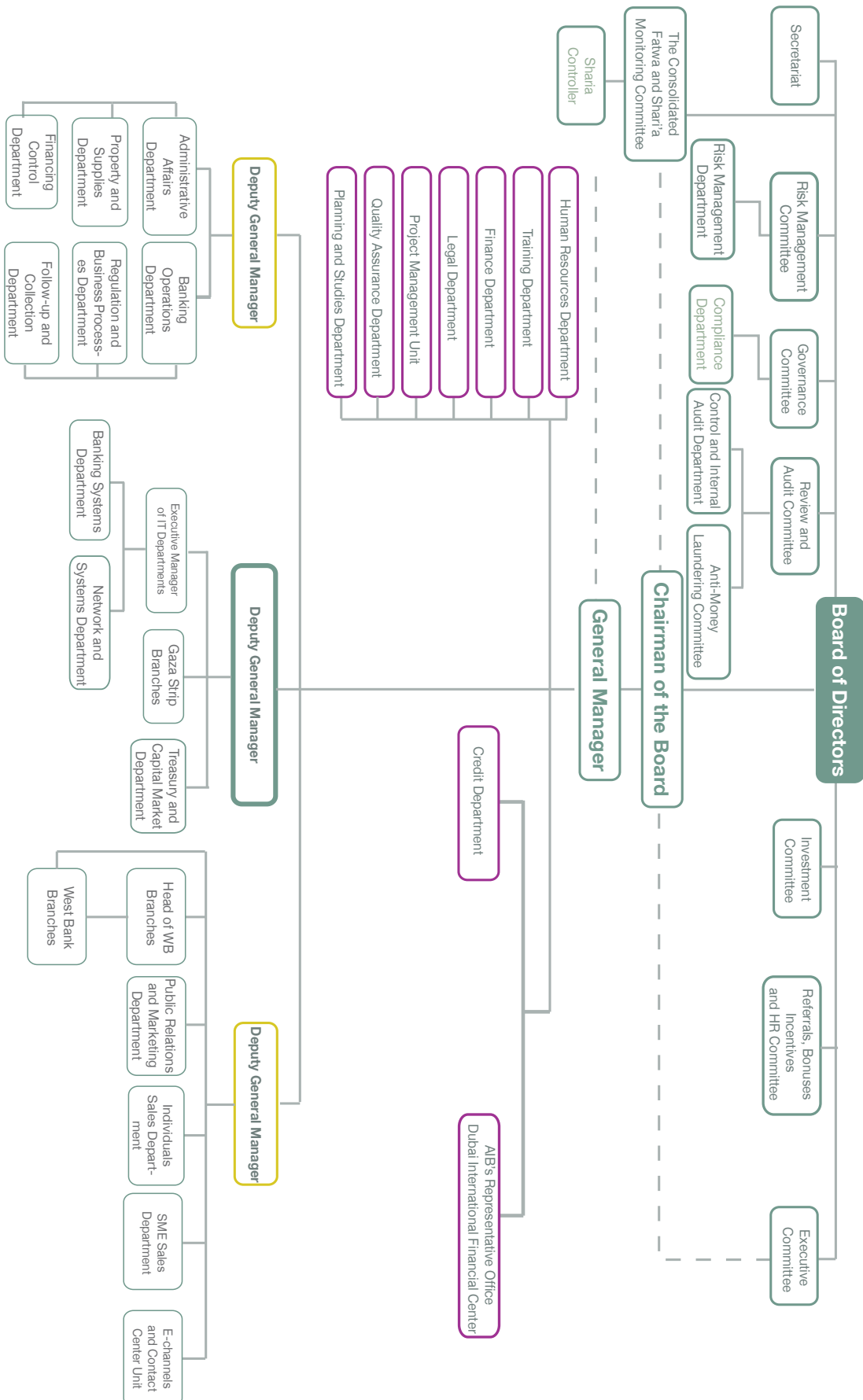
- Investing in supporting the implementation of the new systems and programs in the bank and holding extensive training workshops that are related to applying these systems, especially (securitization product and its Sharia banking applications, Electronic Cheque Clearing (ECC), instant card issuing service in branches, early repayment mechanisms for Easy Life cards).

- Investing in cooperative training with universities by enhancing participation in the dual studies program with Al-Quds University, which consist of theoretical education at the university and practical training in institutions throughout the students' four years. The bank has enhanced its participation during 2020 by including two additional students at the bank, increasing the total number of students to 7 students. Participating students undergo training and work at the bank for three full months during each academic semester.



# Governance and Organizational Structure

## AIB's Organizational Structure





# Governance and Organizational Structure

AIB confirms its commitment to all policies, provisions, and rules of the Code of Corporate Governance in Palestine to ensure justice, integrity, transparency, and disclosure of financial and non-financial issues in a manner that makes the relationship between shareholders, the BoD, and the executive management transparent and fulfilling of all interests on an equitable basis. This enables shareholders to assess the bank's situation and its performance, in addition to having accountability in the relationships between the executive management and the BoD, the BoD and the shareholders, and the BoD and other stakeholders, while considering the separation of responsibilities and powers of all employees at the bank, based on the following principles:

## 1. General Assembly Meetings:

Ordinary and extraordinary General Assembly meetings are held at the invitation of the BoD, which are sent to shareholders at least 14 days prior to the meeting, and announced in local newspapers no less than two weeks prior to the meeting. At the General Assembly Meeting, the external auditor's report and the report of the Consolidated Fatwa and Sharia Control Committee are presented to the shareholders. All shareholders questions are answered. Furthermore, the agenda items are discussed in order, and a room is always given to discuss other issues at the request of shareholders if possible. The ordinary General Assembly Meeting is held once a year and extraordinary meetings are held whenever necessary.

## 2. Equal Rights of Shareholders:

The BoD of the Arab Islamic Bank constantly ensures that each shareholder enjoys all rights warranted under the applicable laws, regulations, and instructions. In principle, shareholders have the right receive asset records and invitations to attend General Assembly meetings, and enjoy equal rights in the distribution of cash or stock dividends, transfer or mortgage shares, vote and elect, and the priority right in new public subscriptions.

## 3. Company's Management:

The current Board of Directors of the Arab Islamic Bank consists of 11 members, and the Board membership stipulates that the elected member own no less than 7,000 shares. Members of the Board shall have financial and economic experience. The Board meets regularly and whenever need be with at least six meetings per annum.

AIB's Board of Directors has formed, from among its members, several permanent subcommittees including

- The Executive Committee;
- The Review and Audit Committee;
- The Risk Management Committee;
- The Governance Committee;
- The Investment Committee;
- The Referrals, Bonuses, Incentives and HR Committee;

The bank's executive management is headed by its General Manager who has qualifications, integrity, and significant experience in the fields of banking and economy. Moreover, prominent staff with the required qualifications and expertise were recruited to the executive management. The General Manager develops the bank's strategic plans and follows up its implementation, provided that such plans are approved by the BoD. There is also segregation of duties between the BoD and the executive management regarding the bank's daily operations.



# Governance and Organizational Structure

## AIB's Organizational Structure

### 4. Risk Management:

In managing all types of risks, e.g. financing risks, operational risks, market and cash flow related risks, business continuity and reputations risks, information security risks, the Arab Islamic Bank implements the latest international standards. It looks forward to achieving transparency and compliance with the decisions of the monitoring bodies, the instructions of the PMA, BASEL II and Basel III Committee instructions. Currently, the bank plans to implement the provisions of BASEL II Agreement in coordination with the PMA. It focuses on ensuring adequate hedging of the capital for all potential risks of granting financing, external investments, and Bank's operational activities based on Pillar I of Basel II.

Groundwork is afoot to conduct the Internal Capital Adequacy and Assessment Process (ICAAP) based on Pillar II of BASEL II guidelines, and to strengthen existing monitoring procedures. This ensures the adequate hedging of the bank's capital for all potential risks of the business of the bank, which were not hedged as per the Pillar I of BASEL II guidelines. Such risks result from expansion, concentration, access to new markets, legal issues and/or any change to the strategic planning to maintain asset quality and ample liquidity to meet emergency requirements. Stress tests are prepared, and their results are reflected in the bank's financial statements to understand their impact on the bank's profits and risk-weighted assets to hedge sufficient capital according to the guidelines and recommendations of the Basel II Committee. Moreover, work continuity tests are conducted for alternative work site, which aim at testing the alternative site to guarantee the continuity of work in emergency circumstances, and to test the ability of the bank to maintain an excellent service provision in such circumstances. To that end, workshops were organized for the departments of the bank to evaluate and measure the risks individually to mitigate and/or minimize their impact following the best banking practices. Additional tools were utilized to identify and assess the size and level of credit risks arising from customer finance, and market risks emerging from investing in local and international capital markets.

Additionally, the bank seeks to develop and enhance supervision on liquidity risk management through robust methodology and procedures. Such tools will be devised to monitor and evaluate the liquidity situation and the volume of development gaps between assets and liabilities based on international measurement bases and procedures. The aim is to get a firmer grasp of the assets and liabilities management at the bank. In the final analysis, all these operations aim to maintain the assets of the bank and to enable the bank to meet the needs of the client in these extraordinary situations. Further, they aim at enhancing the monitoring responsibility of the Risk Management Department for the operations and daily activities carried out by the Treasury and Financial Markets Department.

### 5. Combating Money Laundering and Terrorism Financing:

AIB complies with all external and internal policies and instructions on Anti-money laundering and combating terrorism funding in coordination with all the administrative departments. Moreover, the AIB follows up on all advancements in the field of combating money laundering. Such measures protect the bank from the possibility of passing any suspected procedures that can cause the bank financial losses or impact its relationship with other parties. The bank achieves this commitment through raising public awareness fostering knowledge amongst employees of the importance of combating money laundering by organizing workshops and directives. The bank, moreover, ensures the compliance of the departments with the combating money laundering law, the instructions issued on this matter, and the application of the "Know Your Client" rule in all levels and aspects.

### 6. Compliance:

The Compliance Monitoring Department works to ensure that the bank complies with all instructions issued by the Palestine Monetary Authority, in order to protect the bank against any financial, legal, or reputation sanctions, which might arise from non-compliance with local and international laws. The Board of Directors ensures the independence of the Compliance Department and recruits to it sufficient, trained, and qualified human cadres. The BoD also adopts a compliance policy through a Compliance Guide, in which all compliance aspects are covered to ensure compliance with the established systems and laws. To that end, the Compliance Department is responsible for:

- Ensuring that employees apply the PMA's instructions to all AIB services and products;
- Offering guidance and consultations to all departments and branches concerning compliance and the sanctions resulting from the violations of the regulations of the Palestine Monetary Authority, and providing answers to any related inquiries through instructions;
- Addressing client complaints and following up with concerned departments to solve client problems correctly in a way that reflects the bank's positive vision;
- Cooperating with internal and external monitoring bodies to ensure the validity and integrity of established compliance procedures;
- Submitting periodical reports on compliance to the Board of Directors;
- Raising the awareness of staff on the issue of compliance through conducting direct training courses for employees;
- Conducting field visits to ensure compliance with the laws, policies, and procedures relevant to the compliance.
- Ensuring adherence to the Foreign Account Tax Compliance Act (FATCA).

## 7. Auditing:

Auditing work at the Arab Islamic Bank is performed by two separate auditing bodies:

- External audit, which is performed by a licensed external auditing firm with the necessary experience and expertise works neutrally and independently from the bank, the Board, and executive management.
- The Internal Auditing Department which reports to the Review and Audit Committee of the BoD conducts testing of the implementation of the internal monitoring system and develops all reports related to the internal auditing work to the said committee, which in turn sends these reports to the BoD with its special recommendations included.

Due to the importance of internal control and its role in supporting comprehensive banking control, AIB's BoD and the Review and Audit Committee believe that having a highly professional and independent internal audit committee is vital for improving the bank's operational efficiency of the bank's processes the performance of risk management, the internal control, and institutional governance systems. The primary goal of internal audit is to check and evaluate the level of appropriateness and efficiency of the internal control system. In addition, it checks the approach to accomplish the tasks of the departments and sections of the bank in a way that ensures complying with the valid laws and instructions, and the good performance, improvement, and independence of the bank. The activity of internal auditing was directed towards the highest levels of risk on the bank (internal audit based on risks) and towards fostering efficiency of the processes.

To achieve the primary goal of internal auditing, the Internal Audit Department checks and evaluates the following aspects of the bank:

- The bank's compliance with the regulatory and legal requirements including the instructions, decrees and guidelines of the Palestine Monetary Authority, and other applicable regulations, along with the evaluation conducted by the Compliance Controller in this regards;
- The executive administration's compliance with the bank's general policies, internal auditing regulations, risk regulations, and the work procedures that include all departments and branches of the bank;
- The compliance of the bank's organizational structure with its needs and operations, and the extent of appropriateness between the job description with the organizational structure, and the compliance with tasks and responsibilities;
- The continuity, integrity, and precision of information systems, as well as the integrity and precision of the timeframe of the financial and administrative data;
- The efficiency and effectiveness of risk management procedures and the methodology of risk evaluation;
- The precision and credibility of the accounting books and financial reports;
- The auditing of transactions and evaluating the internal regulations to implement them, as well as economic feasibility of the said procedures;
- The evaluation system to assesses the capital efficiency in terms of linking it to assess the risks;
- The bank's compliance with the code of ethics and code of conduct approved by the Board of Directors;
- Review of the protection tools of the assets and assuring their existence in the

## 8. Disclosure and Transparency:

The Arab Islamic Bank abides by the disclosure requirements stipulated by applicable laws, regulations, and instructions. This includes the daily disclosures of essential matters and periodic disclosures of financial data, as well as all that must be incorporated in the annual report. All endeavors are made to ensure that necessary information is brought into the service of decision-makers and external stakeholders such as investors and clients. Disclosure are made through several media outlets, including the bank's official website, local newspapers, the Palestine Exchange website, and other means to ensure that the necessary information reaches stakeholders on a timely basis.

## 9. Other Stakeholders:

The Arab Islamic Bank maintains its relations with all stakeholders, including shareholders, employees, clients, and all those who have a relationship with the bank as per laws, regulations, and instructions that guarantee the rights of each. The bank operates according to its bylaws and financial and management systems and follows the guidelines of the applicable and relevant laws such as the Labor Law, the Corporate Law, and contracts signed between the bank and other shareholders and parties.

## Other Disclosures:

### Contracts and Transactions of Relevant Parties:

There are no contracts, projects, or commitments entered by the bank with the Chairman of the BoD, members of the Board, the General Manager, or any employee at the bank or their relatives.

### Potential Risks:

There are no contracts, projects, or commitments entered by the bank with the Chairman of the BoD, members of the Board, the General Manager, or any employee at the bank or their relatives.

### Subsidiaries and Sister Companies:

The bank has no subsidiaries or sister companies.

### Auditors:

Ernst & Young was elected to audit the bank's accounts and statements for the fiscal year 2020.

### Discrepancies between preliminary data previously disclosed and final data:

There are no differences between the preliminary data previously disclosed and final data.

### Non-Recurring Operations:

There is no financial impact for non-recurring operations that took place during the fiscal year, which do not fall within the main activities of the bank.

### International Quality Standards:

The bank applies the BASEL I criteria and guidelines, some of the BASEL II criteria and guidelines, best governance practices, and all instructions of the PMA to cover all aspects of risk management.

### Concessions:

There is no government protection or concessions enjoyed by the bank or any of its products according to the applicable laws and regulations, and the bank has not obtained any patents or royalties.

### Legal Procedures:

The number of cases filed against the bank was 15 cases as of 31 December 2020. The amount of these cases totaled USD 816,283.26, and the allocations of the bank to address these cases was only USD 22,463.

### Foreign Investments:

The size of foreign investments in bonds and investments in the Islamic banks, funds, deposit bonds, syndicate loans, and shares on the local and foreign level as of 31/12/2020 amounted to USD 58,262,381. The size of foreign investments in bonds and investments in the Islamic banks as of 31/12/2019 was USD 38,432,486.

### Capital Investments:

The total amount of capital investment of the bank reached USD 5,822,333 as of December 31, 2020, and USD 11,152,799 as of December 31, 2019.



## Decisions with a Material Impact:

There were no decisions issued by the executive, judicial or legislative authorities, international organizations, the Occupation Authority, or any other entities with a material impact on the work, products, competitiveness, or sustainability of the bank.

## Reliance on Main Suppliers and Clients:

The Arab Islamic Bank deals with several local and external suppliers to cover its various purchases. The bank purchases from two companies and the percentage of the purchases from each exceeds 10% of the total purchases of the bank. These companies are:

- Trust International Insurance Company: the percentage of our purchases from this company reached 18% (banking insurance policies, health insurance, fire and theft insurances).
- Contact Company for General Contracting and Construction: the percentage of our purchases amounted to 10% (finishing works for Jerusalem branch).

## Adequacy of the Internal Control and Monitoring Systems:

The executive management follows a framework to assess the efficiency of internal control and monitoring through three independent departments, directly reporting to the Review and Audit Committee and the Governance and Compliance Committee of the BoD, in accordance with the instructions of the PMA and other control bodies. These departments, which are the Risk Department, the Internal Monitoring and Audit Department, and the Compliance Department, implement and assess internal control and monitoring systems for various operations at the bank. The first department sets the monitoring procedures to control the anticipated risks arising from various banking and non-banking operations of the bank, including credit risks, market risks, operational risks, and other risks. The Internal Audit Department examines the commitment of Bank's departments and branches to implementing the control and monitoring systems and issues recommendations to address any gaps found during its periodic inspection operations. The Compliance Department monitors the bank's implementation of the PMA's instructions as well as those of external control bodies related to the bank's compliance with the rules of governance and transparency. It must be noted that all reports issued by these departments are directly submitted to the BoD Subcommittees, each according to their specialization, who in their turn submit them to the BoD.

The external auditors examine the efficiency of internal control and monitoring systems through periodic visits to the bank's departments and branches, and issue their reports and recommendations. Drafts of the annual report are also prepared in parallel with financial statement disclosure, through which compliance to internal control and monitoring systems are assessed. Furthermore, the external auditors assist in preparing the bank's internal work procedures and administrative instructions, which are then submitted to the Review and Audit Committee, which submits it to the BoD along with its recommendations, and a copy is sent to the bank's executive management.

In this context, it must be noted that the Arab Islamic Bank always seeks to avoid any substantial gaps and weaknesses in its internal control and monitoring regulations. Such issue is managed through periodic monitoring and evaluation of these systems. Accordingly, it makes amendments and improvements to ensure that it remains on the right track. The bank also keeps pace with the changes and developments in various fields relevant to sound Islamic banking industry.

### Role and Responsibilities of the Board of Directors:

- Review, adopt and monitor long-term strategic objectives and the action plans of executive management;
- Monitor the overall performance and the progress made in the achievement of strategic goals;
- Evaluate major risks and the measures taken by the management to monitor and control these risks;
- Determine the level of risk tolerance and ensure the promotion of risk culture across the bank;
- Oversee the validity of financial statements to ensure commitment to organizational and legal requirements, and ensure the quality and independence of external and internal auditors;
- Review and approve major transactions and processes, including important credit decisions, capital allocations and expenditures, as per the approve authority matrix;
- Supervise financing and investment activities and make major investment and financing decisions;
- Supervise and adopt the policy and management framework of human resources and governance;
- Select and recommend candidates for membership of the BoD to be elected by the shareholders;
- Select, prepare, and evaluate potential candidates for the positions of executive management, and supervise the development of succession plans;
- Develop reward policies for members of the Board and senior managers;
- Evaluate the overall performance of the BoD and the effectiveness of its members, and take corrective measures, when needed;
- Supervise the governance framework to guarantee commitment with agreed policies and provisions;
- Ensure the integrity of relationships with shareholders, protect their rights, and conduct meetings in accordance with applicable rules and regulations; and
- Ensure the consideration of the shareholder's best interests.

## Meetings of the Board of Directors and its Subcommittees:

During 2020, the BoD of the Arab Islamic Bank and its subcommittees convened periodic meetings to discuss, study, and approve all matters related to the bank, each within its field of specialty. The frequency of the meetings is outlined in the table below:

Party	Number of Meetings in 2020
Board of Directors	9
Risk Management Committee	7
Investment Committee	3
The Review and Audit Committee	5
Executive Committee	23
Referrals, Bonuses, Incentives and HR Committee	5
Governance Committee	2

All meetings of the BoD and its subcommittees met the legal quorum. Moreover, the BoD, its committees, members, and main managers are evaluated, and the Board continuously monitors the results of the evaluations. There are no conflicts between the Board and the Audit Committee.

## Record of Attendance at the BoD Meetings:

Name of BoD Member	Position	Number of Attendances from the (9) meetings	Percentage of Attendance from the (9) meetings
Dr. Atef Kamal Alawneh	Chairman of the Board	9	100%
Dr. Mohammad Mahmoud Nasr	Deputy Chairman of the Board	9	100%
Mr. Mohammad Awni Abu Ramadan	Member of the Board	9	100%
Mr. Shadi Adnan Al-Khatib	Member of the Board	9	100%
Mr. Rushdi Mahmoud Al-Ghalayini	Member of the Board	9	100%
Mr. Salman "Mohammad Ta'ma" Qumailah	Member of the Board	8	89%
* Mr. Faisal Ghazi Al-Shawwa	Member of the Board	2	23%
Mr. Sam Sami Bahour	Member of the Board	9	100%
Mr. Maher Jawad Farah	Member of the Board	9	100%
Dr. Safaa Naseraddin	Member of the Board	9	100%
Mrs. Samar Zuhdi Nakhlah	Member of the Board	9	100%

\* Mr. Faisal Ghazi Al-Shawwa: resigned on 31/05/2020



### BoD Subcommittees:

#### The Executive Committee – Permanent Committee

##### Members and Rapporteurs:

- Mr. Rushdi Al-Ghalayini – Member of the Board / Chairman of the Committee
- Dr. Atef Alawneh – Chairman of the Board / Member
- Mr. Shadi Al-Khatib - Member of the Board / Member
- Mr. Hatem Suboh – Director of Financing Control / Secretary of the Committee

#### Committee's Roles and Responsibilities:

- Approve all financial transactions, including grants, adjustment and abolition when the value of such transaction exceeds the powers of the internal Financing Committee, and up to USD 20 million, and to provide recommendations to the Board of any transactions exceeding this value;
- Recommend to the Board to adopt the credit policy, facilities, insurances, credit ceilings, and the limits of the authorities of the Financing Committee at headquarters;
- Determine the profit margin for the structured financing programs when approving them, and review them twice a year;
- Take appropriate measures to address bad debts;
- Cancel debts based in the recommendation of the Financing Committee and the reinforcement of the Board and within the ceiling of the committee;
- Approve rescheduling or restructuring of existing funding which are approved by the Financing Committee within the authority of the Executive and Financing Committees;
- Review financing requests with values that exceed the limit of the authority of the Financing Committee in HQ;
- Continuous review of all reports, data and studies that facilitate the implementation of their work professionally and efficiently;
- Inform the Board of Directors of the status of the bank's credit portfolio, adequately and periodically, and inform them about its size, improvements, categorized facilities and allocations that aim to face the losses and effort of performing the follow-up and collection works;
- Inform the Board immediately of any substantial changes on the bank's credit portfolio;
- Recommend setting the credit policy of the bank and the conditions of granting facilitations, guarantees, credit ceilings, and limits of authorities of the Financing Committee in headquarters. The stated process must be in line with the provisions and instructions of the PMA, the recommendations, and decisions of risks management department, and the banking standard, to then present them to the Board for approval. The Committee is also responsible for reviewing the credit policies on regular basis and to update them so that they are in line with any changes in the economic, political and banking environments, and any changes in the bank's status;
- Approve the marketing plans set by the executive management regarding offering all forms of credit facilities;
- Ensure the executive management's compliance with the credit policies and the authorities set by the Board of Directors;
- Study the new financing requests and/or renewal requests raised by the Financing Committee at the Executive Management to take the appropriate measures following the authorities and ceilings of the Committee, and in line with the instructions of the relevant control authorities;
- Review the status of existing bad debts, set the appropriate policies to reduce them, and assure the efficiency of their allocations according to the instructions of the control authorities. Also, the Committee makes recommendations regarding debt write-offs.

Discharge of Responsibilities: the Committee is cleared of its responsibilities during the General Assembly Meeting every year.

## The Review and Audit Committee – Permanent Committee

### Members and Rapporteurs:

- Mr. Sam Bahour - Member of the Board/ Chairman of the Committee
- Mr. Salman Qumailah - Member of the Board/ Member
- Mr. Mohammad Abu Ramadan - Member of the Board/ Member
- Mrs. Samar Nakhleh - Member of the Board/ Member
- Mr. Ibrahim Abu Abdo - Manager of the Internal Audit Department/ Secretary of the Committee

## Committee's Roles and Responsibilities:

- Review the periodic and annual financial statements and discuss them with the management and the external auditor, in addition to the regulations and assessment related to financial statements;
- Oversee the bank's compliance with the legal and regulatory requirements;
- Review the bank's financial control and internal audit regulations;
- Coordinate with the Risks Management Committee to assure presenting the financial condition of the bank and its performance;
- Follow-up and verify any submitted notes based on the set approach by the Board, which allows employees to submit their comments on any suspected violations confidentially. This system enables employees to submit direct notes to the Review and Control Committee or to the employee's supervisor, who will deliver such notes to the Committee;
- Submit regular performance reports to the BoD;
- Nominate the external auditor, determine his/her fees and dismiss him/her, provided that the Board and the General Assembly approve such action;
- Assess the independence of the external auditor at least once a year;
- Review the accounting and financial practices of the bank;
- Review the scope and results of auditing with the external auditor, in addition to describing any difficulties and obstacles that prevented having access to the required information and documents, or any conflicts or difficulties with the management;
- Review reports of the Sharia audit and reports of the Fatwa and Sharia Control Committee, and formulate appropriate recommendations;
- Direct supervision of the following departments: the Internal Audit Department, the Compliance Control Department, the Anti-money Laundering and Financing of Terrorism Unit;
- Directly contact the bank's internal auditors, external auditors, and consultants;
- Contact any employee of the bank;
- Carry out any inspections or investigations as it deems necessary;
- Request and receive reports on reappointment of external auditors and their fees, and present the results of their work in the annual shareholders meeting. The Chairman of the Committee must be present to answer the shareholders' inquiries.

Discharge of Responsibilities: the committee is cleared of its responsibilities during the General Assembly Meeting every year.

### The Risk Management Committee – Permanent Committee

#### Members and Rapporteurs:

- Mr. Sam Bahour - Member of the Board / Chairman of the Committee
- Dr. Mohammad Nasr – Deputy Chairman of the Board / Member
- Mr. Salman Qumailah - Member of the Board / Member
- Dr. Safaa Naseraddin - Member of the Board / Member
- Mr. Sa'id Miqdadi - Risks Management Department Manager / Secretary of the Committee

#### Committee's Roles and Responsibilities:

- Determine the risks associated with the bank's operations, check the status of the current and future comprehensive strategy in terms of its ability to handle and eliminate risks, and oversee the Higher Executive Management's implementation of this strategy;
- Communicate with the Risk Management Department, both formal and informal communication, to enhance the efficiency of the Committee;
- Submit periodic reports to the Board on the risks that the bank faces or might face, and inform the Board of any significant changes that might occur without delay;
- Ensure the existence of an appropriate and efficient environment for risks management in the bank, including studying the appropriateness of the organizational structure of the bank and having a qualified and independent staff that works on managing the risks that face the bank, all in line with a clear system put forward to manage risks;
- Recommend approving the bank's Risk Management Policies;
- Review the inspection reports issued by the control authorities;
- Ensure the Executive Management's compliance with the Risk Management Policies and the level of their success in achieving the defined goals and results;
- Direct supervision on the Risk Management Department.

Discharge of Responsibilities: the Committee is cleared of its responsibilities during the General Assembly Meeting every year.



## The Governance Committee – Permanent Committee

### Members and Rapporteurs:

- Dr. Safaa Naseraddin - Member of the Board / Chairman of the Committee
- Mr. Sam Bahour - Member of the Board / Member
- Mr. Mohammad Abu Ramadan - Member of the Board / Member
- Dr. Jamal AlKilani – Head of the Consolidated Fatwa and Sharia Monitoring Committee / Member
- Mrs. Fairouz Thabaleh – Compliance Department Manager / Secretary of the Committee

### Committee's Roles and Responsibilities:

- Supervise the implementation of the framework of the Governance Policy and Guidelines, in cooperation with the Management, the Audit Committee, and the Consolidated Fatwa and Sharia Monitoring Committee, through requesting semi-annual reports from the Risk Management Committee and the Review and Audit Committee, that demonstrates the bank's compliance with the Governance Policy;
- Submit to the Board reports and recommendations based on results of its tasks, including compliance with the bank's Governance Manual and their recommendations to edit the manual in a manner that ensures the implementation of the best practices;
- Recommend approving the bank's Governance Manual and Principles.

Discharge of Responsibilities: the Committee is cleared of its responsibilities during the General Assembly Meeting every year.

### Investment Committee – Permanent Committee

- **Members and Rapporteurs:**
- **Mr. Rushdi Al-Ghalayini - Member of the Board / Member**
- **Mr. Maher Farah - Member of the Board / Member**
- **Mr. Shadi Al-Khatib - Member of the Board / Member**
- **Dr. Atef Alawneh - Chairman of the Board / Member**
- **Mr. Sa'id Miqdadi – Risks Management Department Manager / Secretary of the Committee**

### Committee's Roles and Responsibilities:

- Review all reports and studies on the status of external employment procedures, current bank investments, the existing conditions of the local and international financial markets, and all available data that enables the Committee to perform its tasks efficiently and professionally;
- Update the Board of Directors on the status of the bank's investment portfolio on regular basis, and inform the BoD of any substantial changes on the status of these investments without any delay;
- Issue its recommendations on approving the bank's Investment Policy, in addition to reviewing and updating it on regular basis, and ensure its compliance with the applicable banking laws and standards. Moreover, to present the investment Policy to the Board of Directors for approval, provided that the policy clearly specifies the approach of taking investment-related decisions, the ceilings of authorities, and different centers in compliance with the recommendations of the Risks Management Department;
- Examine all new investment requests and investment ceilings renewal requests, and approve/reject the investments and the ownership of securities, according to the defined authorities of the Committee by the BoD and present the recommendations to the Board on the investment decisions that exceed the authorities of the Committee in accordance with the instructions of the control authorities and the recommendations of the Risks Management Department;
- Ensure compliance of the Management with the investment decisions and specified authority ceilings by the Committee;
- Purchase and Sell the listed/unlisted shares on the stock exchange (financial market) in accordance with the Islamic Shari'a laws, after the authorization of the Treasury and Financial Markets Department;
- Invest in and subscribe in new companies after obtaining the approval of the Board of Directors;
- Approve the payment of capital premiums required for previously approved contributions, based on the recommendation of the Treasury and Financial Markets Department;
- Subscribe to certificates of deposit, instruments and specialized investment processes, based on the recommendation of the Treasury and Financial Markets Department;
- Approve the joint investment funds created by the bank based on the recommendation of the Treasury and Financial Markets Department;
- Approve the certificates of deposit, instruments and the specialized investment processes prepared and managed by the bank, which it undertakes to cover completely or to exert the maximum efforts to cover, based on the affiliation of the Treasury and Financial Markets Department;
- Specify the names of the approved brokers for the circulation of securities in the stock market upon the authorization of the Treasury and Financial Markets Department;
- Adopt and approve the ceilings for the open currencies centers, that are approved to be kept under the management of the Treasury and Financial Markets Department, based on the authorization of the Treasury and Financial Markets Department;
- Adopt the ceilings of transactions with other banks and financial and banking institutions based on the recommendations of the Treasury and Financial Markets Department, and/or the competent subcommittees;
- Adopt the list of approved brokers for securities circulation in stock market based on the affiliation of the Treasury and Financial Markets Department;
- Make decisions related to the contribution in open investment tools of the capital market with a maximum value of USD 15 million or its equivalent;
- Give the Treasury the power to maintain an open market for JoD currency against USD only with a percentage of 5% of the bank's capital base, and in compliance with the instructions of the PMA, while maintaining the powers related to the USD 1 million as is, without any changes to the other currencies;
- Approve the ceilings of transactions with other banks and financial and banking institutions based on the recommendations of the Treasury and Financial Markets Department, with a maximum value of USD 15 million or its equivalent;
- Approve the different capital market transactions managed by the bank, including mergers, acquisitions, obtaining licenses for providing financial services and professions approved by the capital market, and safe deposits services, in compliance with the BoD's strategies and its instructions;
- Approve investment transactions that exceed the powers of the executive management.

Discharge of Responsibilities: the Committee is cleared of its responsibilities during the General Assembly Meeting every year.



## Referrals, Bonuses, Incentives and HR Committee – Permanent Committee

### • Members and Rapporteurs:

- Dr. Mohammad Nasr – Deputy Chairman of the Board / Chairman of the Committee
- Dr. Atef Alawneh - Chairman of the Board / Member
- Mrs. Samar Nakhleh - Member of the Board / Member
- Mr. Ratib 'Etyani - HR and Training Department Manager / Secretary of the Committee

## Committee's Roles and Responsibilities:

- Develop standards for members of the board, in compliance with the Governance Regulation issued by the PMA.
- Study the proposals related to forming new committees submitted by the Chairman of the BoD, and provide recommendations regarding such proposals the Board.
- Evaluate the performance of BoD, its subcommittees, and its members at least once per year;
- Review the BoD members' incentives policy and recommend to the BoD any changes deemed necessary, as well as recommending to the BoD the amounts paid to the members of the board. This includes annual bonuses, membership and chairman allowances for members of the BoD and its subcommittees, as well as any other bonuses and incentives.
- Review the programs and policies related to the Bank's employees to verify that they are designed to attract, motivate and retain skilled and experienced managers and employees, and that they are in line with the Bank's strategy, goals, and programs. Moreover, the committee must submit any recommendations for change to the BoD in this regards.
- Evaluate the performance of the General Manager and recommend to the BoD the size of the annual bonus in light of the attainment of goals specified in the annual plan, taking into account the bonuses of the executive managers of other banks and similar institutions, as well as the bonuses given in previous years, the bank's financial results, and other related factors. The committee shall also evaluate the performance of the general manager's deputies and issue recommendations to the BoD regarding their annual bonuses based on the recommendations of the general manager and the attainment of the bank's goals.
- Review and recommend to the BoD to approve the Bank's main Human Resources Policy, and any amendments made to it, to ensure that it is fair, competitive, and in-line with the Bank's long-term goals and best interests, and to ensure that it is in line with the latest best practices in the field of human resources management.
- Review all regulations, instructions and procedures related to human resources, bonuses and incentives, including evaluation forms, employment and promotion procedures, key performance indicators (KPIs), career path plan, and any amendments made to such procedures and any others.
- Review the bank's human resources plan, and the training and skills development plans that target the bank's managers and employees.
- Review the bank's succession management plan and submit suggestions and recommendations to the BoD on this matter.
- Review any matter related to human resources, bonuses and incentives, and submit recommendations to the BoD to enable the BoD to make the appropriate decisions at the appropriate time.
- Review the human resources section of the annual report, which is prepared by the Human Resources Department, and submit it with recommendations to the BoD for approval before including it in the report.
- Ensure that the executive management implements the instructions of the Palestine Monetary Authority and the instructions of the Board of Directors regarding the scope of the committee's work.
- Perform any other tasks assigned by the Board.

Discharge of Responsibilities: the Committee is cleared of its responsibilities during the General Assembly Meeting every year.



# Governance and Organizational Structure

## Benefits and Bonuses

### Benefits and Bonuses Received by the Chairman of the Board and the Members of the Board:

The benefits and bonuses paid to the Chairman of the Board and the Members of the Board are in line with the BoD Members Bonuses System that was approved in the Board Meeting number 01/2017 held on 15/02/2017.

Bonuses and Allowances paid to the Members of the BoD during 2020

Name	Number of Board Meetings	Transportation to Board Meetings	Annual Bonuses	Amount Before VAT	VAT	Amounts Due to Members
Mr. Atef Kamal Sadeq Alawneh	9	40,000	21,758	61,758	6,176	55,582
Mr. Mohammad Mahmoud Mohammad Nasr	9	18,000	21,758	39,758	3,976	35,782
Mr. Mohammad Awni Abu Ramadan	9	16,500	21,758	38,258	3,826	34,432
Mr. Shadi Adnan Ahmad Al-Khatib	9	25,500	21,758	47,258	4,726	42,532
Mr. Rushdi Mahmoud Rasheed Al-Ghalayini	9	25,500	21,758	47,258	4,726	42,532
Mr. Salman "Mohammad Ta'ma" Salman Qumailah	8	17,000	19,341	36,341	3,634	32,707
Mr. Faisal Ghazi Jameel Al-Shawwa	2	7,000	4,835	11,835	1,184	10,652
Mr. Maher Jawad Samaan Farah	9	13,500	21,758	35,258	3,526	31,732
Mr. Sam Bahour	9	20,000	21,758	41,758	4,176	37,582
Mrs. Dr. Safaa Naseraddin	9	17,000	21,758	38,758	3,876	34,882
Mrs. Samar Nakhlah	9	17,000	21,758	38,758	3,876	34,882
Total	91	217,000	220,000	437,000	43,700	393,300

#### Higher Management Expenses for 2019

Executive Management	Total Annual Salaries	Annual Bonus-es	End of Service Bonuses	Annual Travel Ex-penses	Total Annual Privileges	Loans	Guarantees
General Manager	266,976	64,800	22,248	-	354,024	-	-
Deputy General Manager - Ghas-san Jabr	194,000	11,772	16,167	-	221,939	56,982	Salary and dues guarantee
Deputy General Manager - Ihsan	213,584	12,960	17,799	18,000	262,343	-	0
Deputy General Manager - Mu'awya	195,776	11,880	16,315	18,000	241,971	149,832	Salary and dues guarantee
Assistant General Manager - Maysara	112,160	5,985	9,347	-	127,492	129,501	Salary and dues guarantee + car mortgage
Total	982,496	107,397	81,875	36,000	1,207,768	336,315	-

## Benefits and Bonuses paid to Members of the Executive Management:

\*The benefits and bonuses paid to the members of the Executive Management are based on the salaries scale adopted according to the bank's Internal Circulation number 3/C/2009 dated 14/9/2009, and based on the Risks, Governance, and Compliance Committee Decision no. 1/2011.

### \* The adopted Policy to determine expenses related to attending BoD sessions:

The adopted system is the amended BoD Bonuses System that was adopted in BoD meeting number 1/2017 on 15/02/2017.

#### First: Transportation Expenses for Members of the BoD and its Subcommittees:

##### • Members of the BoD:

The BoD Member is paid USD 1,000 per month as transportation expenses for the attendance of periodic meetings. An amount equal to the percentage of unattended meetings from the total number of meetings that month is deducted from this amount.

The Chairman of the Board is paid USD 2,000 per month as a transportation expenses for the attendance of periodic meetings. An amount equal to the percentage of unattended meetings from the total number of meetings that month is deducted from this amount.





# General Assembly Meeting

## Agenda of AIB's Ordinary General Assembly Meeting 2020:

- **Members of the Subcommittees:**

**Executive Committees:** Each Committee member is paid USD 1,000 per month as transportation expenses to attend periodic meetings. An amount equal to the percentage of unattended meetings from the total number of meetings that month is deducted from this amount.

**All Remaining Committees:** Each Committee member is paid USD 500 for attending each periodic meeting, according to the BoD Decision number 8/2017 dates 28/12/2017.

### Annual Bonuses “from profits”:

The Chairman of the Board and the Members of the Board receive 3% of the profits distributable to shareholders, with a minimum amount of USD 20,000 per member, and provided that the amount does not exceed 10% of the net distributable profit.

### Transportation and Travel:

A full cars is used for transportation, and first-class seats are used when travelling by plane, train, or ship.

### Travel Exposés and Per Diems:

The Chairman of the Board and the Members of the Board are paid for first class tickets, hotel bills, and a per diems in the amount of USD 500 per day of travel to all countries except European countries where the amount becomes EUR 500, GBP 500 when traveling to Britain, and USD 500 when traveling to the USA and Canada. Departure taxes, expenses, actual transportation costs to and from the airport, and the costs of crossing the bridges and borders are fully covered. Furthermore, the travel day and the return day are included in the per diem payment.

The aforementioned details apply to Board Members residing abroad when traveling to Palestine for official business.

\* All bonuses and transportation expenses mentioned above are subject to the Income Tax Law.



# General Assembly Meeting

## Agenda of AIB's Ordinary General Assembly Meeting 2020:

1. Recite the proceedings of the session held on 25 March 2020.
2. Present and discuss the report of the BoD on the Bank's operations during 2020 and its future plans, and approving it;
3. Hear the report of the Consolidated Fatwa and Sharia Monitoring Committee for 2020 regarding the Bank's financial data and its closing accounts;
4. Present the auditors' report of 2020 regarding the bank's financial data and closing statements;
5. Discuss the bank's financial statements for the fiscal year 2020 and approve them;
6. Approve the distribution of cash profits in the amount of USD 2,565,000, which represents 2.9% of a share's nominal value;
7. Approve the distribution of free shares in the value of USD 3,250,000/share, which represents 3.67% of a share's nominal value;
8. Approve the payment of USD 220,000 as a reward for the members of the BoD for 2020;
9. Clear the members of the Board for the year ending 31/12/2020 according to the provisions of the law;
10. Elect the Board of Directors for the upcoming session.
11. Approve the structure of the Consolidated Fatwa and Shari'a Monitoring Committee.
12. Elect the bank's auditors for the year 2021 and delegate the BoD to determine their fees;

## Voting by a group of financial securities

### The Ordinary General Assembly Meeting on 2019 budget:

In the last Ordinary General Assembly Meeting held on 25/03/2020, the shareholders voted in favor of approving the financial statements and cleared the members of the BoD for the fiscal year ending on 31/12/2019. In addition, the General Assembly approved the payments of bonuses in the amount of USD 237,000 (two hundred and thirty seven thousand US dollars) to the Chairman of the Board and the Members of the Board for the results of the bank's operations during 2019. The General Assembly also approved the distribution of cash profits in the amount of USD 4,000,000 representing 4.71% of the share's nominal value, and the distribution of free shares USD 3,550,000 Share, representing 4.18% of the share's nominal value. Moreover, the General Assembly approved the bank's future plan, and appointed Ernst & Young as the auditor of the bank for the fiscal year 2021.

## Investors' Relations Management: Major Shareholders:

bank's authorized capital amounted to USD 100,000,000 per share, while the paid and listed capital in the Palestine Exchange amounted to USD 88,419,252 per share. The following tables illustrate the investors whose ownerships total up to 5% or more of the paid capital as of 31/12/2020.

Shareholder's Name	No. of shares as of 31/12/2020	Percentage %	No. of shares as of 31/12/2019	Percentage %
Bank of Palestine	46,059,052	52%	44,210,844	52%
ASWAQ Company for Investment Portfolios	22,622,798	25.57%	21,715,015	25.57%
Palestine Investment Fund Company	8,397,471	9.49%	8,060,507	9.49%

## Control over the Company:

Shareholder's Name	No. of shares as of 31/12/2020	Percentage %
Bank of Palestine	46,059,052	52%

## Investors' Relations Management:

### Group of Companies of the Palestine Investment Fund Company:

Shareholder's Name	No. of shares as of 31/12/2020	Percentage %
ASWAQ Company for Investment Portfolios	22,622,798	26%
Palestine Investment Fund Company	8,397,471	9%
Total	31,020,269	36.06%

### Profits and Losses with the rights of Shareholders and the Prices of Securities:

Budget	Profits/losses After Tax	Stock Dividends	% of share Distribution	Cash Dividends	Shareholders' net right at the end of year	Share Closing Price at the End of the Year
2013	3,500,463	-	0.00%	0	62,321,764	1.2
2014	4,129,844	-	0.00%	8%	67,729,769	1.1
2015	5,201,692	-	0.00%	0	69,005,125	1.6
2016	6,220,821	-	0.00%	12%	75,209,854	1.6
2017	6,402,924	-	0.00%	0	106,995,915	1.8
2018	7,103,320	9,919,252	13.0%	4.0%	109,394,827	1.6
2019	9,010,282	3,550,000	4.0%	4.7%	116,563,640	1.7
2020	8,014,336	3,250,000	3.7%	2.9%	120,243,730	1.6

### Exchange Activity of the bank's Shares at the Palestine Stock Exchange:

	2020	2019	Percentage of Change from Previous Year (%)
Number of shares issued from the bank	100,000,000\$/Share	100,000,000\$/Share	0.0%
Number of shares subscribed and listed	88,419,252\$/Share	84,919,252\$/Share	0.0%
Opening price \$	1.71	1.58	0.0%
Highest price \$	1.75	1.84	0.0%
Lowest price \$	1.39	1.55	0.0%
Closing price \$	1.59	1.70	-6.47%
Number of sessions in which the share was exchanged	124.00	154.00	-19.5%
Number of Shareholders	1186.00	1145.00	3.6%
Value of exchanged shares "USD"	1,383,890.00	1,555,943.00	-11.1%
Number of shares exchanged "shares"	902,691.00	939,042.00	-3.9%
Number of executed transactions	448.00	580.00	-22.8%
Average share turnover (%)	1.02%	%1.11	-8.1%



## Ownership of Securities by Board Members and Members of the Executive Management:

### • Ownership of Corporate Members of the Board:

Name of Member	Position	Representative's Nationality	No. of Shares as of 31/12/2020	No. of Shares as of 31/12/2019
Palestine Investment Fund Company, represented by: Dr. Mohammad Mahmoud Nasr	One Member	Palestinian	8,397,471	8,060,507
Bank of Palestine Company represented by: Dr. Atef Kamal Alawneh Mr. Rushdi Mahmoud Al-Ghalayini Mr. Salman "Mohamed Ta'meh" Qumailah Mr. Faisal Ghazi Shawwa Mr. Maher Jawad Farah	5 Members	Palestinian	46,059,052	44,210,844
ASWAQ Investment Portfolios Company represented by: Mr. Shadi Adnan Al-Khatib Mr. Mohammad Awni Abu Ramadan	2 Members	Palestinian	22,622,798	21,715,015

### • Ownership of Board Members and Company Representatives:

Member's Name (Representative)	Name of Member Company	Position	No. of Shares as of 31/12/2020	No. of Shares as of 31/12/2019
Dr. Atef Kamal Alawneh	Bank of Palestine	Chairman of the Board	20,466	19,645
Dr. Mohammad Mahmoud Nasr	Palestine Investment Fund	Deputy Chairman of the Board	29,094	27,927
Mr. Maher Jawad Farah	Bank of Palestine	Member	27,897	33,401
Mr. Sam Bahour	Independent	Member	12,384	11,888
Mrs. Samar Zuhdi Nakhleh	Small Investors	Member	10,418	10,000
Dr. Safaa Naseraddin	Independent	Member	7,292	7,000



## Investors' Relations Management:

### • Ownership of Executive Management:

Name	Position	Nationality	No. of Shares as of 31/12/2020	No. of Shares as of 31/12/2019
Mr. Hani Salah Naser	General Manager	Palestinian	20,000	47,254
Mr. Ghassan "Mohamed Hashem" Jabr	Assistant General Manager		1,179	1,132
Mr. Muawiah Fahd Dawood Qawasmi	Assistant General Manager		26,929	21,050
Mr. Sa'id Miqdad Miqdadi	Risk Management Department Manager and Secretary of the BoD	Palestinian	5,920	5,683
Mr. Ratib Abdullah 'Etyani	Human Resources and Training Department Manager	Palestinian	14,154	13,587

### • Ownership of the Relatives of the BoD and the Executive Management (Wife and Minor Children only):

Name of Shareholder	Degree of Kinship with BoD and Executive Management	Nationality	No. of Shares as of 31/12/2020	No. of Shares as of 31/12/2019
Suzan Jamal Naser	Wife of the Deputy Chairman of the Board	Palestinian	2,004	1,924

\* There are no companies controlled by the Executive Management.

### • Forms and Mechanisms of Communication with Shareholders:

1. The Arab Islamic Bank's Website, Investors' Relations ([www.aib.ps](http://www.aib.ps));
2. Website of Palestine Exchange and the Palestine Capital Markets Authority, through which all essential data is communicated according to the disclosure regulations in force in Palestine;
3. Official correspondence via official mail, and sometimes through email and fax;
4. Local newspapers in Palestine;
5. By phone through the Investors' Relations Department (0097022941823) and via email ([Linda@aib.ps](mailto:Linda@aib.ps));
6. Through all branches and offices of the Arab Islamic Bank spread across Palestine;
7. The Bank's Annual Reports.

## The Consolidated Fatwa and Shari'a Monitoring Committee:

The Consolidated Fatwa and Shari'a Monitoring Committee at the Arab Islamic Bank consists of three members holding PhD degrees in Islamic Banking jurisprudence, with extensive work experience in Islamic banking institutions. The members of the Committee are:

### Work Mechanism of the Consolidated Fatwa and Shari'a Monitoring Committee:

#### **Prof. Jamal Zaid Al-Kilani - Head of the Consolidated Fatwa and Shari'a Monitoring Committee**

##### **From 2018 till present**

- Member of the Consolidated Fatwa and Sharia Monitoring Committee at the Arab Islamic Bank since 2013 until 2018.
- Member of the Higher Fatwa Council in Palestine since 2012 until now.
- Dean of the Sharia faculty at An-Najah National University since 2010 until now.
- Participated in submitting scientific research in numerous local and international conferences on topics related to economies and Islamic banks.
- Published many peer-reviewed research papers on contemporary financial issues in specialized journals.



#### **Dr. Anas Zahir al-Masri – Member and Rapporteur**

##### **From 2018 till present**

- • Member of the Consolidated Fatwa and Sharia Monitoring Committee at the Arab Islamic Bank since 2018 until now.
- Assistant Professor at the Finance and Banking Department in the Faculty of Business and Economics at Palestine Technical University – Khadouri, since 2018 until now.
- Pd.D. in Economics and Islamic Banks - Yarmouk University – Jordan 2015.
- Participated in submitting scientific research in numerous local and international conferences on topics related to economies and Islamic banks.
- Published many peer-reviewed research papers on contemporary financial issues in specialized journals.



#### **Dr. Mohamed Wajeih Hanini – Member**

##### **From 2020 till present**

- Member of the Consolidated Fatwa and Sharia Monitoring Committee at the Arab Islamic Bank since 2020 until now.
- Deputy Head of the Higher Sharia Supervisory Board at the Palestine Monetary Authority, since 2018 until 2020.
- Assistant Professor and Head of the Master's program at the Faculty of Law and Public Administration at Birzeit University, since 2009 until now.
- Pd.D. in Islamic Banks and Financial Markets from the Arab Academy for Banking and Financial Sciences - Jordan 2008.
- Participated in submitting scientific research in numerous local and international conferences on topics related to economies and Islamic banks.



# The Consolidated Fatwa and Shari'a Monitoring Committee

---

## Work Mechanism of the Consolidated Fatwa and Shari'a Monitoring Committee:)

1. The Committee meets at the invitation of the Head of the Committee, the decision of the bank's BoD, or at the request of a majority of its members;
2. The Head of the Committee has the right to call for extraordinary meetings whenever the need arises;
3. The Committee has the full right to access, without restrictions, all of the bank's records, transactions, and information, as well as its right to refer to the bank's staff and consultants;
4. Prepare periodic reports submitted to the management and those submitted to shareholders.

## Committee's Role and Responsibilities:

1. Monitor the Bank's operations and activities to ensure their compliance with the laws of Islamic jurisprudence, and review the applied processes to make sure that they do not involve any prohibited actions according to the Shari'a law;
2. Formulate and express an opinion about the extent of the bank's commitment to Islamic jurisprudence related to financial transactions. The Committee shall also submit its periodic Shari'a monitoring reports to the BoD, and its semi-annual and annual Shari'a monitoring reports to the General Assembly, and to publish its report. All submitted reports include any activities that are in violation of Shari'a laws, if any;
3. Prepare the Shari'a Compatible Work Procedures Manual, which covers all the bank's activities, and includes all the necessary rules to control the transactions with traditional banks;
4. Make the appropriate decisions on any conflict that might arise between the internal Shari'a Control Unit and the bank's management regarding the Shari'a explanations. The Committee's decisions shall be deemed final and binding for both parties;
5. Ensure the existence of a sound internal control system that ensures proper enforcement of the provisions of Islamic jurisprudence on financial transactions, according to what is approved by the Committee, and adopt the annual monitoring program, which includes monitoring all activities of the bank in accordance with a specific annual plan;
6. Specify and approve the methods of spending the amounts available in the non-Shari'a compliant gains fund;
7. Approve all contracts necessary for the bank's for the work and activities of the bank, as well as all agreements, policies, products, transactions, and financial statements;
8. Study the reports and observations of the Resident Shari'a Controller, who is responsible for the daily functions on behalf of executive management, and the extent of their compliance with Shari'a requirements, and provide guidance in this regards whenever needed;
9. Provide guidance, training, education, and awareness to the bank's staff with respect to the provisions of Shari'a laws and relevant Fatwas (Sharia compliant decisions);
10. Approve the Profits and Losses Distribution Policy related to investment accounts;
11. Find Shari'a compliant alternatives to any regulations, contracts and business applications presented to it. The Committee's role shall not be limited to confirming or rejecting the compliance of transactions with the provisions of Islamic jurisprudence, but shall provide appropriate initiatives and proposals for new products to the executive management of the bank.

### Prof. Mr. Tarek AlSayed Ahmad / Resident Secretary of the Fatwa Committee and Sharia Controller, since 2016 till present

- Secretariat of the Consolidated Fatwa and Shari'a Monitoring Committee at the Arab Islamic Bank since 2016 until now.
- Head of the product development department at the Arab Islamic Bank, 2016 until 2017.
- Holds several international professional certificates in the fields of Islamic financing, CIB, CIFE and CSAA.
- Participated in submitting scientific research in numerous local and international conferences on topics related to economies and Islamic banks.
- Published many peer-reviewed research papers on contemporary financial issues in specialized journals.



### Appointment of the Resident Shari'a Controller:

The position of "Resident Shari'a Controller" is associated with the Consolidated Fatwa and Shari'a Monitoring Committee and is functionally connected to it. The Resident Shari'a Controller shall not be assigned any tasks that contradict with its control duties. Moreover, the Resident Shari'a Controller must comply with the Code of Ethics issued by the Accounting and Auditing Organization for Islamic Financial Institutions. The Resident Shari'a Controller must possess the following qualifications as minimum:

- a. A Bachelor's degree in any related field (minimum);
- b. An Internal Shari'a Controller certificate;
- c. Relevant experience and training on Shari'a control functions.

### Roles and Responsibilities of the Resident Shari'a Controller:

1. Examine and evaluate the adequacy and effectiveness of the extent of the bank's commitment to Fatwas issued by the Fatwa Committee;
2. Ensure the bank management's abidance by Fatwas issued by the Fatwa Committee in all daily activities;
3. Provide guidance and training to all of the bank's staff in respect to the provisions of Shari'a law and relevant Fatwas;
4. The Shari'a Controller shall disseminate knowledge through printing Fatwas, guidelines and instructions issued by the Fatwa and Shari'a Monitoring Committee regarding the products and services offered by the bank;
5. Update the Shari'a Compliance Manual every five years, as minimum. The Board of Directors and the Fatwa Committee are the authorized parties to approve any amendments upon the recommendations of the Risk Committee and the Governance and Compliance Committee;
6. Develop a specific plan for internal Shari'a control, detailing the timeframe of the Shari'a control, which shall be approved and adopted by the Fatwa Committee and the Board of Directors;
7. Develop the Internal Shari'a Control Guide to explain the functions, authorities, and responsibilities. The Guide must be approved by the Consolidated Fatwa and Shari'a Control Committee;
8. Prepare quarterly reports (at a minimum) and submit them to the Consolidated Fatwa and Shari'a Committee. Moreover, copies of the Guide shall be submitted to the Board of Directors and to the Internal Audit Committee. The report must explain the purpose, scope, and results of the Internal Shari'a Audit and its recommendations for future improvements and correction works to be reviewed for the results or recommendations.

# Report of the Consolidated Fatwa and Shari'a Control Committee

---

## Report of the Consolidated Fatwa and Shari'a Control Committee for the period ending 31/12/2020

Praise be to Allah, the Lord of all that exists, and blessings and peace be upon the messenger our Prophet Muhammad, and upon his family and companions...  
Dear respected shareholders of the Arab Islamic Bank PLC,

Peace be upon you,,,

Based on the Authorization Letter (copy attached herein), we hereby present the following report:

We have reviewed the applicable principles and the contracts related to the transactions and applications offered by the company during this period. We have also expressed our opinion on whether the company has committed with the provisions and principles of the Islamic Shari'a through Fatwas, decisions, and specific instructions issued by us.

The management is responsible for ensuring that the company operates in compliance with the provisions of Islamic Shari'a. Our responsibility is limited to expressing our independent opinion based on what we have reviewed regarding the corporate processes and preparing this report for you.

We have conducted our monitoring that included examining the documentation and procedures followed by the company based on the testing of each type of operations.

We have planned and implemented our monitoring in order to receive information and explanations deemed necessary to provide us with sufficient proof that enables us to offer a reasonable confirmation that the company abided by and did not violate the principles and provisions of Islamic Shari'a.

In our opinion:

1. The contracts, operations, and transactions entered into and performed by the company during the period from 1/1/2020 until 31/12/2020, which we have reviewed, are not –in majority- in contradiction with the principles and provisions of the Islamic Shari'a, and the revenues achieved from non-Shari'a transactions were transferred to the non-Shari'a revenues account;
2. The distribution of profits and losses on the investment account agrees with the basis adopted by us and does not contradict the principles of Islamic Shari'a;
3. The gains achieved from resources or by means that are not accepted by the principles and provisions of the Islamic Shari'a during the mentioned period were disbursed for charitable purposes;
4. Each shareholder shall bear the responsibility of the due Zakat in accordance with principles and provisions of the Islamic Shari'a.
5. The Bank is committed to the decisions issued by the Higher Sharia Supervisory Board.

We ask Allah for guidance and rightness  
Peace be upon you all,

Prof. Jamal Zaid Al-Kilani

Head of the Consolidated Fatwa  
and Shari'a Monitoring Committee

Dr. Anas Zahir al-Masri

Member and Rapporteur

Dr. Mohamed Wajeeh Hanini

Member

Location and time: Ramallah – AIB HQ: 16/Rajab/1442 Hijri, corresponding to 28/February/2021 AD.





# AIB's Financial Statements - 2020

As of December 31st 2020

ARAB ISLAMIC BANK P.L.C.

FINANCIAL STATEMENTS

DECEMBER 31, 2020

## **Independent Auditor's Report to the shareholders of Arab Islamic Bank**

### **Opinion**

We have audited the financial statements of Arab Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2020, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, and statement of earnings and disbursements prohibited by Shari'a 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, 2020, 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 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' (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements as at December 31, 2020. 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
<p><b>Expected Credit Loss “ECL” provision:</b></p> <p>The process of estimating expected credit losses of customers’ receivables and finances, balances and investment accounts at banks and financial institutions, and financial assets at amortized cost in accordance with the International Financial Reporting Standard No. (9) is important, complex and requires significant judgment.</p> <p>International Financial Reporting Standard No. (9) requires the use of the expected credit losses model. This requires the Bank’s management to use several assumptions and estimates to determine the timing and value of expected credit losses as well as applying judgment to determine the inputs to the impairment measurement process including assessing collaterals and determining the date of default.</p> <p>The Coronavirus pandemic (COVID-19) has impacted the calculation of expected credit loss calculations. During the year, the Bank revised its macroeconomic indicators and gave higher weight to the worst-case scenarios.</p> <p>Due to the importance of the judgements applied in IFRS (9) and credit exposures that form major portion of the Bank’s assets, ECL was considered a significant audit risk.</p> <p>The net balance of credit financing, balances with banks and banking institutions, investments with Islamic banks, and financial assets at amortized cost of the Bank as at December 31, 2020 amounted to U.S. \$ 1,066,233,576 which represents 68% of the total assets of the bank. The balance of the expected credit loss provision on these assets was U.S. \$12,970,298 as at December 31, 2020.</p> <p>Accounting policies, estimates and significant accounting judgments, disclosure of provision for expected credit losses, and credit risk management are detailed in notes (2, 4, 5, 6, 8,25, 47 and 54) in the accompanying financial statements.</p>	<p>Our audit procedures included the assessment of the controls over the granting, booking and monitoring processes of receivables and finances, and the process of measuring expected credit losses, including the requirements of Palestine Monetary Authority to validate the operating effectiveness of the main key controls in place, which determine the expected credit losses of customers’ receivables and finances, balances and investment accounts at banks and financial institutions, and financial assets at amortized cost and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented, and operating effectively, as well as procedures for assessing the following:</p> <ul style="list-style-type: none"> <li>- The Bank’s policy regarding the provision for expected credit losses in accordance with the International Financial Reporting Standard No. (9).</li> <li>- Key assumptions and judgments related to the material increase in credit risk, the definition of default, and the use of macroeconomic inputs to verify that the ECL amounts recorded reflect the underlying credit quality and macroeconomic trends, including the impact of the Coronavirus (Covid-19).</li> <li>- The appropriateness of the stages.</li> <li>- Appropriateness of determining exposure at default (EAD), including the consideration of repayments in the cash flows and the resultant arithmetical calculations.</li> <li>- The appropriateness of the probability of default (PD), exposure at default (EAD) and loss giving default (LGD) used for different exposures at different stages.</li> <li>- Appropriateness and objectivity of the internal rating.</li> <li>- Soundness and mathematical integrity of the expected credit losses calculation.</li> <li>- 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.</li> <li>- For exposures determined to be individually impaired, we re-performed the ECL calculation and obtained an understanding of the latest developments in the counterparty’s situation of the latest developments in estimate of future cash flows, current financial position any rescheduling or restructuring agreements.</li> <li>- We assessed collaterals valuation techniques against the Bank’s valuation guidelines.</li> <li>- We also assessed whether the financial statements appropriately reflect the requirements of the International Financial Reporting Standard No. (9).</li> </ul>

**Other information included in the Bank's 2020 Annual Report**

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

Our opinion on the 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 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, 2020 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Ernst & Young – Middle East**  
License # 206/2012

**Sa'ed Abdallah**  
License # 105/2003

Ramallah - Palestine  
March 17, 2021



**STATEMENT OF FINANCIAL POSITION**

As at December 31, 2020

		2020	2019
	Notes	U.S. \$	U.S. \$
<b>Assets</b>			
Cash and balances with Palestine Monetary Authority	3	401,742,907	331,388,262
Balances at banks and financial institutions	4	88,072,938	61,180,505
Investments at Islamic banks	5	4,062,368	8,490,224
Direct Islamic financing	6	945,049,866	757,729,010
Financial assets at fair value through other comprehensive income	7	6,828,577	7,198,032
Financial assets at amortized cost	8	29,048,404	29,942,262
Investment properties	9	25,884,919	25,677,869
Property and equipment	10	23,291,018	20,772,355
Projects in progress	11	704,734	1,049,063
Right of use assets	12	7,936,131	8,287,217
Deferred tax assets	13	3,647,117	2,774,291
Intangible assets	14	1,448,234	1,401,061
Other assets	15	19,331,569	16,038,229
<b>Total assets</b>		<b>1,557,048,782</b>	<b>1,271,928,380</b>
<b>Liabilities, unrestricted investment accounts and equity</b>			
<b>Liabilities</b>			
Istidama loans from PMA	16	3,186,310	-
Palestine Monetary Authority's deposits	17	66,954,205	57,764,412
Banks and financial institutions' deposits	18	27,227,946	36,010,043
Customers' deposits	19	325,966,065	251,112,205
Cash margins	20	73,742,621	57,924,336
Sundry provisions	21	6,730,683	5,806,291
Tax provisions	22	3,207,605	1,359,203
Deferred tax liabilities	23	2,645,835	2,632,994
Lease liabilities	24	8,252,944	8,447,555
Other liabilities	25	22,380,723	19,782,879
<b>Total Liabilities</b>		<b>540,294,937</b>	<b>440,839,918</b>
<b>Unrestricted investment accounts</b>	26	<b>896,510,115</b>	<b>714,524,822</b>
<b>Equity</b>			
Paid-in share capital	1	88,469,252	84,919,252
Statutory reserve	27	7,339,348	6,537,914
General banking risk reserve	27	8,374,674	7,812,746
Pro-cyclicality reserve	27	4,113,369	4,113,369
Investment properties reserve	9	7,254,718	7,219,509
Cumulative change in fair value reserve	7	(2,243,628)	(1,874,173)
Retained earnings		6,935,997	7,835,023
<b>Net equity</b>		<b>120,243,730</b>	<b>116,563,640</b>
<b>Total liabilities, unrestricted investment accounts and equity</b>		<b>1,557,048,782</b>	<b>1,271,928,380</b>

The accompanying notes from 1 to 55 are part of these financial statements

**INCOME STATEMENT**

For the year ended December 31, 2020

	Notes	2020 U.S. \$	2019 U.S. \$
<b>Revenues</b>			
Financing and investment revenues	28	49,298,803	45,214,442
Less: Return on unrestricted investment accounts	29	(11,833,700)	(8,213,569)
Bank's share of income from financing and investment		37,465,103	37,000,873
Net commissions	30	4,742,458	4,545,810
Foreign currencies exchange gain		3,820,998	2,996,284
Financial assets gain	31	372,596	373,642
Other revenues	32	525,550	971,974
<b>Total revenues</b>		<b>46,926,705</b>	<b>45,888,583</b>
<b>Expenses</b>			
Personnel expenses	33	(15,682,067)	(14,713,467)
Other operating expenses	34	(11,840,550)	(13,494,316)
Depreciation and amortization	35	(4,420,371)	(4,061,953)
Palestine Monetary Authority's fines	36	-	(10,000)
Re-measurement of provision for expected credit losses for the year, net	37	(4,019,381)	(1,654,565)
<b>Total expenses</b>		<b>(35,962,369)</b>	<b>(33,934,301)</b>
<b>Profit before taxes</b>		<b>10,964,336</b>	<b>11,954,282</b>
Taxes expense	22	(2,950,000)	(2,944,000)
<b>Profit for the year</b>		<b>8,014,336</b>	<b>9,010,282</b>
<b>Basic and diluted earnings per share</b>	41	<b>0.091</b>	<b>0.102</b>

The accompanying notes from 1 to 55 are part of these financial statements

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2020

	Notes	2020 U.S. \$	2019 U.S. \$
<b>Profit for the year</b>		<b>8,014,336</b>	<b>9,010,282</b>
Items to be reclassified in the income statement in subsequent periods:			
Change in fair value of financial assets	7	(369,455)	(85,886)
Unrealized gains on revaluation of investment properties	9	48,050	1,186,495
Deferred taxes	23	(12,841)	(317,078)
<b>Other comprehensive income</b>		<b>(334,246)</b>	<b>783,531</b>
<b>Total comprehensive income for the year</b>		<b>7,680,090</b>	<b>9,793,813</b>

The accompanying notes from 1 to 55 are part of these financial statements

## ARAB ISLAMIC BANK

**STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2020

	Reserves							Net equity U.S. \$
	Paid-in share capital U.S. \$	Additional paid-in capital U.S. \$	Statutory U.S. \$	General banking risk U.S. \$	Pro-cyclicality U.S. \$	Investment properties U.S. \$	Cumulative change in fair value U.S. \$	
<b>December 31, 2020</b>								
<b>Balance, beginning of the year</b>	84,919,252	-	6,537,914	7,812,746	4,113,369	7,219,509	(1,874,173)	7,835,023
Profit for the year	-	-	-	-	-	-	-	8,014,336
Other comprehensive income	-	-	-	-	-	35,209	(369,455)	-
Total comprehensive income for the year	-	-	-	-	-	35,209	(369,455)	8,014,336
Transfers to reserves	-	-	801,434	561,928	-	-	-	(1,363,362)
Stock dividends distributed (note 43)	3,550,000	-	-	-	-	-	-	(3,550,000)
Cash dividends distributed (note 43)	-	-	-	-	-	-	-	(4,000,000)
<b>Balance, end of the year</b>	88,469,252	-	7,339,348	8,374,674	4,113,369	7,254,718	(2,243,628)	6,935,997
<b>December 31, 2019</b>								
<b>Balance, beginning of the year</b>	75,000,000	6,250,000	5,636,886	7,515,767	4,113,369	6,350,092	(1,788,287)	6,317,000
Profit for the year	-	-	-	-	-	-	-	9,010,282
Other comprehensive income	-	-	-	-	-	869,417	(85,886)	-
Total comprehensive income for the year	-	-	-	-	-	869,417	(85,886)	9,010,282
Transfers to reserves	-	-	901,028	296,979	-	-	-	(1,198,007)
Stock dividends distributed (note 43)	9,919,252	(6,250,000)	-	-	-	-	-	(3,669,252)
Cash dividends distributed (note 43)	-	-	-	-	-	-	-	(2,625,000)
<b>Balance, end of the year</b>	84,919,252	-	6,537,914	7,812,746	4,113,369	7,219,509	(1,874,173)	7,835,023

The accompanying notes from 1 to 55 are part of these financial statements

**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2020

		2020	2019
	Notes	U.S. \$	U.S. \$
<b><u>Operating activities</u></b>			
Profit before taxes		10,964,336	11,954,282
<b>Adjustments for:</b>			
Sundry provisions		1,147,373	1,205,341
Depreciation and amortization		4,420,371	4,061,953
Re-measurement of provision for expected credit losses on Islamic financing		4,019,381	1,654,565
Losses on disposal of property and equipment		19,231	77,083
		<u>20,570,692</u>	<u>18,953,224</u>
<b>Changes in assets and liabilities:</b>			
Statutory cash reserve		(22,553,868)	(15,077,174)
Direct Islamic financing		(190,737,877)	(77,716,104)
Balances at banks and financial institutions maturing after three months		3,526,093	(5,641,749)
Investments at Islamic banks maturing after three months		(552,854)	(1,459,597)
Other assets		(4,257,226)	3,419,284
Customers' deposits		74,835,860	31,196,175
Cash margins		15,818,285	9,083,233
PMA Deposits maturing after three months		20,000,000	
Deposits of banks and financial institutions maturing after three months		20,759,516	(893,700)
Other liabilities		3,683,686	7,932,006
<b>Net cash flows used in operating activities before taxes and provisions</b>		<u>(58,889,693)</u>	<u>(30,204,402)</u>
Taxes paid		(1,974,424)	(2,152,042)
Sundry provisions paid		(222,981)	(211,743)
<b>Net cash flows used in operating activities</b>		<u>(61,087,098)</u>	<u>(32,568,187)</u>
<b><u>Investing activities</u></b>			
Purchase of financial assets at fair value through other comprehensive income		-	(1,012,373)
Proceeds from sale from financial assets at amortized cost		1,000,000	3,000,000
Purchase of investment properties		(159,000)	(5,741,544)
Purchase of property and equipment		(1,850,073)	(3,099,929)
Projects in progress additions		(3,315,951)	(2,228,445)
Proceeds from sale of property and equipment		37,759	-
Purchase of intangible assets	14	(497,309)	(82,881)
<b>Net cash flows used in investing activities</b>		<u>(4,784,574)</u>	<u>(9,165,172)</u>
<b><u>Financing activities</u></b>			
Cash dividends distributions		(4,000,000)	(2,625,000)
Lease liabilities paid	24	(1,146,568)	(1,081,870)
Istidama loans from PMA	16	3,186,310	-
Increase in unrestricted investment accounts		181,985,293	135,372,489
<b>Net cash flows from financing activities</b>		<u>180,025,035</u>	<u>131,665,619</u>
<b>Increase in cash and cash equivalents</b>		<u>114,153,363</u>	<u>89,932,260</u>
Cash and cash equivalents, beginning of the year		208,133,075	118,200,815
<b>Cash and cash equivalents, end of the year</b>	40	<u>322,286,438</u>	<u>208,133,075</u>

The accompanying notes from 1 to 55 are part of these financial statements

**Statement of Earnings and Disbursements Prohibited by Shari'a**

For the year ended December 31, 2020

	2020	2019
	U.S. \$	U.S. \$
<b><u>Sources of earnings prohibited by Shari'a</u></b>		
Interest	29,293	48,226
Profit from direct Islamic financing	59,526	46,040
<b>Total earnings prohibited by Shari'a</b>	<b>88,819</b>	<b>94,266</b>
<b><u>Disbursements</u></b>		
Donations	(88,819)	(94,266)
<b>Total disbursements</b>	<b>(88,819)</b>	<b>(94,266)</b>
<b>Balance of prohibited by Shari'a, end of the year</b>	<b>-</b>	<b>-</b>

The accompanying notes from 1 to 55 are part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

### 1. General

Arab Islamic Bank P.L.C. (the Bank) was incorporated in Al-Bireh, Palestine as a public shareholding company in accordance with the Companies' Law of 1964 and registered in Palestine under number (563201011) on January 8, 1995.

The Bank commenced operations in early 1996. The Bank is licensed to provide all banking services, financing, trading and investing activities in accordance with Islamic Shari'a principles through its headquarters in Al-Bireh, 22 branches and 5 offices.

The Bank is a subsidiary of Bank of Palestine P.L.C, which owns a controlling interest of 52.06% of the Bank's capital. As a result, the Bank's financial statements are with the financial statements of Bank of Palestine.

A Shari'a Supervisory Board (the Board), which comprises Four members appointed by members of the General Assembly of the Bank, supervises the Bank's operations. 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 General Assembly in its extraordinary meeting held on April 2, 2017 approved increasing the Bank's capital to U.S. \$ 75 million through a secondary public offering. In 2019, an underwriting of U.S. \$ 9,919,252 was completed, an underwriting through the year with of U.S. \$ 3,550,000 as the Bank's authorized and paid share capital amounted in 2020 to U.S. \$ 88,469,252 as at December 31, 2020 with a U.S. \$1 par value for each share.

The total number of the Bank's staff reached (640) and (590) as at December 31, 2020 and 2019, respectively.

The financial statements were approved by the Bank's Shari'a Supervisory Board during their meeting number (5) held on February 28, 2021 and issued its shariaa' report on them.

The financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (01/2021) held on February 25, 2021. And were approved by PMA on March 14, 2021.

### 2. Accounting policies

#### 2.1 Basis of preparation

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

The financial statements have been prepared under a historical cost basis, except for financial assets at fair value through equity and investment properties that have been measured at fair value at the date of the financial statements.

The financial statements have been presented in U.S. Dollars (U.S. \$), 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 issued by the International Accounting Standards Board are applied in absence of accounting standards issued by AAOIFI.

## 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 annual financial statements for the year ended 31 December 2019 except for the adoption of new standards effective as of 1 January 2020 shown below:

### **FAS 33 Investment in sukuk, shares and similar instruments**

Financial Accounting Standard No. (33) "Investment in Sukuk, Shares and Similar Instruments" replaces Financial Accounting Standard No. (25), as this standard defines the main types of instruments for Islamic Sharia-compliant investments and defines accounting treatments in line with the characteristics of the business model of the bank being Under the Investment Management, it aims to establish principles for the classification, recognition, measurement, presentation and disclosure of investment in sukuk, stocks and other similar instruments. The Bank has applied the requirements of Financial Accounting Standard No. (33) related to investments in sukuk, shares and similar instruments, and there was no impact from the application of Financial Accounting Standard No. (33) on the bank's financial statements.

#### ***Classification***

Unless the irrevocable initial recognition choices provided below are exercised, the Bank shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Bank's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back end, shall be initially classified and measured at cost, till the time the transaction at the back end is executed, and at amortised cost thereafter.

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement) depending on the Bank's business model.

Investment in equity-type instrument is carried as investment at fair value through income statement unless the Bank make an irrevocable classification choice at initial recognition to classify this as investment at fair value through equity. An investment held for trading purposes shall always fall in fair value through income statement classification.

### **FAS 33 Investment in sukuk, shares and similar instruments (continued)**

#### ***Recognition and Initial measurement***

All investment shall be initially recognized at their value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the statement of income when incurred. A regular way purchase of investments shall be recognized upon the transfer of control to investor.

### *Subsequent measurement*

#### **a) Investments at amortised cost**

Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

#### **b) Investments at fair value through income statement**

Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the statement of income.

#### **c) Investments at fair value through equity**

Investment carried at fair value through equity shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "fair value through equity reserve". Investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

### **Reclassification**

When, and only when, the Bank changes its business model for managing investments, it shall reclassify all affected financial assets prospectively from the reclassification date. In case of reclassification, the Bank shall not restate any previously recognized gains, losses (including impairment gains or losses) or returns/ profits.

The Board of Directors decided to early adopt the standard with effect from the current year.

Except for investments in equity instruments and managed funds, all financial assets held by the Bank are classified as investments in a monetary debt-type instruments and accordingly classified at amortised cost. With regard to the investments, the Bank opted to make an irrevocable classification choice to classify them as investment at fair value through equity. Investment in managed funds is classified as investments at fair value through the statement of income.

The adoption of the above accounting standard did not have a material impact on the financial statements.

### **FAS 34 Financial Reporting for Sukuk -holders**

This standard prescribes the accounting principles and reporting requirements for underlying assets of a sukuk instrument. It requires the originator to prepare or cause to prepare financing reports as needed under this standard. This standard shall be effective from the financial periods beginning on or after 1 January 2021, with early adoption permitted.

The Board of Directors decided to early adopt the standard and concluded that the accounting standard does not have an impact on the Bank's financial statements as the Bank does not have any sukuk issued.

### **Amendments to IFRS 3: Definition of a Business**

The International Accounting Standards Board has issued amendments to the definition of “business” in IFRS 3 “Business combinations,” to help entities determine whether a group of acquired activities and assets meet the definition of “business.” These amendments clarify minimum business requirements, eliminate the assessment of whether market participants are able to replace any nonexistent business elements, add guidance to help entities assess whether an acquired transaction is material, narrow business definitions and outputs, and introduce an optional fair value concentration test. .

The amendments have been applied to transactions that are either a business combination or the acquisition of assets whose acquisition date is on or after the beginning of the first annual reporting period that began on or after January 1, 2020. Consequently, the Bank did not have to reconsider those transactions that occurred in previous periods. Early application of these amendments is permitted and must be disclosed.

The application of these amendments has no impact to the bank's financial statements

### **Amendments to IAS 1 and IAS 8: Definition of “Material”**

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

### **Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform**

Interest Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

### **Amendments to IFRS 16 Covid-19 Related Rent Concessions**

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

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

### **Standards Issued but Not Yet Effective**

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

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

International Financial Reporting Standard No. (9) for the year 2014 was applied on the date of the mandatory application of the standard on January 1, 2018, until the issuance of instructions for Islamic banks in accordance with the requirements of the Islamic Financial Accounting Standard, where the bank applied the requirements of the expected credit losses model under the instructions of the Monetary Authority No. (2) /2018) on April 1, 2018.

This standard specifies the accounting principles and disclosure requirements for impairment of financial assets and expected credit losses on various credit exposures, investments, and other assets of Islamic financial institutions and their related provisions, in accordance with the best practices followed globally.

This standard also resulted in recommendations regarding changes and improvements in the accounting for reserves represented in risk reserves in accordance with FAS No. 35 "which should be approved simultaneously with the same effective date of FAS 30). Both standards are FAS No. (30) Financial Accounting Standard No. (35) replaces the previous Financial Accounting Standard No. (11) related to "Provisions and Reserves."

This standard will be effective from 1 January 2021, with early application permitted.

#### **FAS 35 Risk Reserves**

This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard shall be effective beginning or after 1 January 2021, with early adoption is permitted, only if the financial institution decided to early adopt FAS 30.

The Board of Directors expects that the adoption of this standard will have no material impact on the financial statements of the Bank in the year of initial application as the Bank does not maintain risk reserves.

#### **FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)**

This standard defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard shall be effective beginning on or after 1 January 2020, with early adoption permitted.

The standard requires the principal to evaluate the nature of the investment as either A- a pass-through investment or B- wakala venture.

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. An investor shall apply the pass-through investment approach for its investments in an investment agency instruments; unless it opts to apply the wakala venture approach.

Under this approach, the principal shall initially recognize the assets underlying the wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

The principal may opt to apply the wakala venture approach if, and only if, the investment agency contract meets any of the conditions required under certain conditions. Under this approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the wakala venture.

From the agent perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach whereby virtue of additional considerations attached to the instrument based on investment agency may mandate the same to be accounted for as on-balance sheet.

From the agent's point of view, the standard requires that at initiation of the transaction the agent must demonstrate the agency arrangement under an off-balance sheet approach since the agent does not control the related assets/business. However, there are exceptions to an off-budget approach where additional considerations associated with the investment agency based instrument may require that the same be counted as a budgeted account.

#### **FAS 32 Ijarah**

This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard shall be effective beginning or after 1 January 2021, with early adoption permitted.

## **IFRS 17 Insurance Contracts**

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2023 with comparative figures required. Early application is permitted provided that the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

## **Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

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

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

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

## **Reference to the Conceptual Framework – Amendments to IFRS 3**

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The amendments are not expected to have a material impact on the Bank.



### **Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**

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

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

The amendments are not expected to have a material impact on the Bank.

### **Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**

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

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

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Bank.

### **IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities**

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

### **IBOR reform Phase 2**

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

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

**IBOR reform Phase 2 provides temporary reliefs that allow the Bank’s hedging** relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to

become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

## **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.

## **2.4 Summary of significant accounting policies**

### **Revenues and expenses recognition**

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

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

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

### **Financial assets and liabilities**

#### Financial assets at amortized cost

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

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

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

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

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

#### Financial assets at fair value through profit or loss (FVTPL)

Debt instrument financial assets that do not meet the amortized cost criteria or that meet the criteria, but the Bank has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

The Bank has not designated a debt instrument financial asset as at FVTPL. Upon initial recognition, the Bank classifies equity instruments at fair value through profit or loss except for investments that are not held for trading for which the Bank can classify it at fair value through other comprehensive income (FVOCI).

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

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

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

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

FVOCI instruments are initially measured at fair value considering acquisition costs, FVOCI instruments are subsequently measured at fair value with gains or losses arising due to changes in fair value recognized at OCI in the fair value reserve. When the Bank decided to dispose such instruments, gains or losses recorded previously in the fair value reserve are reclassified directly to retained earning not through profit or loss.

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

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

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

#### Reclassification of financial assets and liabilities

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

### **Impairment of financial assets**

#### *Overview of the ECL principles*

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

The application of International Financial Reporting Standard No. (9) "Financial Instruments" has fundamentally changed the method of calculating the impairment loss for the bank's finances through the approach of the expected credit loss method with a forward-looking view instead of recognizing the loss when the loss is incurred according to International Accounting Standard No. (39) "Financial Instruments: Recognition and Measurement" effective January 1, 2018.

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

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

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

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

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

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

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

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

#### The calculation of ECLs

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

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

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

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

The mechanics of the ECL method are summarized below:

- |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stage 1          | The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above. |
| Stage 2          | When a loan 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 loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100% and the PD is larger than stage 1 and 2.                                                                                                                                                                                                                                                                                                                                                                  |
| Loan commitments | When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then                                                                                                                                                                                                                                                                                                                                                                                                                |

and letters of  
credit

based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

#### Forward looking information

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

- Gross Domestic Production (GDP) growth
- Unemployment rates

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

#### Collateral valuation

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

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

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

### Write-offs

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

### Forborne and modified Islamic financing

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

### Islamic financing

Islamic financing is carried at cost net of allowance for impairment losses and profit in suspense.

Profit and commission on non-performing Islamic financing are suspended according to PMA instructions.

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

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

The continuous evaluation of a significant increase in the credit risk of renewed Islamic financing is like the evaluation applied to other financing. The profit rate used to discount the expected credit losses for the credit cards is the effective return rate.

### 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 above.

### Derecognition of financial assets

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

### Fair value measurement

The Bank measures 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 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.

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.

External appraisers are involved for valuation of significant assets, such as investment properties. The Bank decides, after discussions with the external appraiser, which valuation techniques and inputs to use for each case.

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

#### **Offsetting**

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

#### **Impairment of financial assets**

The Bank assesses at financial statement date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, any impairment loss is recognized in the income statement.

Equity instruments classified as financial assets at fair value through equity - if there is a prolonged decline in the fair value below cost, the decline is measured at the original cost, and the period of the prolonged decline is measured from the period of decline of fair value below cost. Impairment is the difference between cost and fair value, less any impairment loss previously recognized in the income statement.

For debt instruments classified as financial assets and carried at cost - impairment is the difference between amortized cost and fair value less any impairment loss previously recognized in the income statement.

#### **Return on unrestricted investment accounts**

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

Profits from jointly financed Islamic financing and investments are distributed according to the average monthly balances of such investments. The distribution for all currencies is as follows:

	Share of deposits in profits	Bank's share	Unrestricted investment accounts' share
	%	%	%
Saving and cash margins sharing profits	50	95	5
Deposits maturing within 1 month	50	95	5
Deposits maturing within 3 months	50	95	5
Deposits maturing within a period of more than 3 months	65	95	5
Deposits maturing within 1 year	85	95	5

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.

### **Customer average profit reserve**

The excess of adjusted profits, if any, is recorded in customer average profit reserve to face the volatility of returns on unrestricted investment accounts. In case that the amortized profit to be distributed is less than the realized profit, the Bank uses customer average profit reserve. In case of the absence of profits for distribution, the Bank has the right to grant non-refundable gifts for the unrestricted investment accounts.

### **Finance contracts**

Finance contracts are recorded at cost after deducting suspended profits and the impairment provision for impaired Islamic financing.

A provision for impaired 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 income statement.

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 income statement. Collected amounts already written off are recorded as revenues.

### **Murabaha receivables**

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 receivables**

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 to own the leased asset.

Ijara muntahia bittamleek: are leases, which expire with the lessee owning the leased asset and take several types as reflected in the standard lease and capital lease in accordance with the Accounting and Auditing Organization for Islamic Financial Institutions.

Ijara receivables are recorded at cost including direct cost to make ready for intended use, net of suspended profits and impairment provision for impaired Islamic financing. 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 his/her 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 recorded at fair value of consideration paid after deducting the suspended profits and impairment provision for impaired Islamic financing.

### **Musharaka**

Musharaka is when the Bank and the customer contribute capital in equal or different percentages 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 impairment provision for impaired 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 of consideration paid net suspended profits and impairment provision for impaired Islamic financing.

#### **Tawarooq**

Tawarooq is the purchase of a commodity at a deferred bargaining or murabaha price and then selling it to a non-seller to obtain cash at a fair price, and this product (which has been approved by PMA and its Shari'a Supervisory Board temporarily for a specific period related to the Corona pandemic) allows the Bank's customers to obtain cash to cover their needs and obligations in accordance with the provisions and controls of Sharia standards.

#### **Investment 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 at the following annual rates:

	Useful life (Years)
Buildings	50
Furniture, equipment and leasehold improvements	5-14
Motor vehicles	10
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.

### Project in progress

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

### Intangible assets

The cost of intangible assets acquired in a business combination is 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 in the period the expenditure was 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 system and programs. The Bank's management estimates the useful lives of the intangibles ; the intangibles are amortized using the straight line method based on the expected useful lives of 5 years.

### **Assets obtained by the Bank by calling on collateral**

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

### **Earnings prohibited by Shari'a**

The Bank records earnings prohibited by Shari'a 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 Shari'a Supervisory Board.

### **Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and the Bank intends to 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) as of the date of the financial statements arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

### **Tax provisions**

The Bank provides for income taxes in accordance with the rates enforced by law, regulations of Palestine, International Accounting Standards (12). This standard calls for the recognition of temporary differences resulting from time as deferred taxes as of the statement of financial position date. As a result, the bank may have to record deferred tax assets or liabilities.

Deferred income tax is provided for using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are calculated according to tax rates that are expected to be applicable on the date of the tax settlement or the realization of deferred tax assets.

Income tax expense is calculated based on taxable income that may differ from accounting income as the later includes non-taxable income or non-deductible expenses. Such income or expenses might be taxable/deductible in the following years.

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

### **Provision for employees' indemnity**

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

### **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 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 in foreign currencies are translated using the exchange rates prevailing at the date of determining the fair value. Foreign currency exchange gains or losses are recognized in the income statement.

### **Right-of-use assets**

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

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

### **Lease liabilities**

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

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

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

### **Short-term leases and leases of low-value assets**

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

### **Use of estimates**

The preparation of the financial statements requires the Bank's management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues, expenses and the resultant provisions. Considerable judgment is especially required by management in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

Management believes that estimates are reasonable and are as follows:

- Tax provisions are calculated annually based on prevailing tax laws and the accounting standards that the Bank follows.



- Employees' indemnity expense is recorded in accordance with the Palestinian Labor Law and in accordance with applicable accounting standards.
- Management reviews periodically the useful lives of the tangible and intangible assets in order to assess the depreciation and amortization for the year based on the assets' conditions and useful lives and future economic benefits, any impairment is recognized in the income statement.
- Management reviews, on a regular basis, the financial assets that are stated at cost to estimate impairments, if any. Impairment losses (if any) are recognized in the income statement.
- The fair value of investment properties is determined through appraisers certified or accredited by the Palestine Capital Market Authority.
- Legal cases provision is established to provide for any legal obligations, if any, based on the opinion of the Bank's lawyer.
- Provision for impairment – ECL are reviewed based on PMA instructions and applicable IFRs as follows:

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

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

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

- Retail portfolio: individual basis based on the product level and country (Murabaha, Ijara receivables, Qorod hasana, Mudaraba and Istisna'a)
- Corporate portfolio: individual basis at facility /customer level
- Financial Institutions: individual basis at facility / bank level
- Debt instruments measured at amortized cost: individual basis at instrument level.

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

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

- **Assessment of Significant Increase in Credit Risk (SICR)**

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

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

1. Management has established thresholds for significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition.
2. Restructuring and/or Rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
3. Instruments which are 30 days past due have experienced a significant increase in credit risk as per the standard rebuttable presumption.
4. Two notches down in the rating of the financial asset.

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

- **Macroeconomic Factors, Forward Looking Information and Multiple Scenarios**

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

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

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

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

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

Scenarios will be probability-weighted according to the best estimate of their relative likelihood based on historical frequency and current trends and conditions; Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

In 2020, the bank and due to COVID 19 increased the weight of worst-case scenario.

- **Definition of default**

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

- **Expected Life**

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

### **IFRS 9 governance**

To ensure proper compliance of the IFRS9 implementation, a steering committee was formed with the responsibilities to provide decisions/ feedback on the work plan regarding implementation and adoption of IFRS 9 to ensure all relevant policies and procedures are updated in line with the new requirements and systems are modified / updated for the new requirements, in addition to present the ECL results to the top management and related Committees of the Board of Directors.

### 3. Cash and balances with Palestine Monetary Authority

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Cash on hand	222,963,171	219,823,955
<b>Balances with PMA:</b>		
Current and demand accounts	21,029,223	6,621,541
Swap deposits maturing within 3 months	46,191,820	15,937,941
Statutory cash reserve	111,558,693	89,004,825
	<u>401,742,907</u>	<u>331,388,262</u>

- According to PMA instructions (67/2010), the Bank is required to maintain a statutory reserve of %9 of all customers' deposits. Statutory reserves are calculated on a monthly basis.
- No profit is earned on statutory cash reserves and current and demand accounts.

### 4. Balances at banks and financial institutions

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
<b>Local banks and financial institutions</b>		
Current and demand accounts	-	6,207
Swap deposits maturing less than 3 months	-	13,988,717
	-	<u>13,994,924</u>
<b>Foreign banks and financial institutions</b>		
Current and demand accounts	71,053,700	33,115,591
Deposits maturing within 3 months	8,462,623	1,410,437
Deposits maturing after 3 months	9,167,842	12,693,935
	88,684,165	47,219,963
ECL provision	(611,227)	(34,382)
	<u>88,072,938</u>	<u>61,180,505</u>

- Non-profit bearing balances at banks and financial institutions amounted to U.S. \$ 71,053,700 and U.S. \$ 47,110,515 as at December 31, 2020 and 2019, respectively.

The movement of balances at banks and financial institutions is as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	60,342,067	872,820	-	61,214,887
Net change during the year	27,469,278	-	-	27,469,278
Transferred to stage 2	(14,688,782)	14,688,782	-	-
<b>Balance, end of the year</b>	<u>73,122,563</u>	<u>15,561,602</u>	<u>-</u>	<u>88,684,165</u>
	2019			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	48,283,298	-	-	48,283,298
Net change during the year	12,931,589	-	-	12,931,589
Transferred to stage 2	(872,820)	872,820	-	-
<b>Balance, end of the year</b>	<u>60,342,067</u>	<u>872,820</u>	<u>-</u>	<u>61,214,887</u>

The movement of the ECL provision on balances at banks and financial institutions is as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$

<b>Balance, beginning of the year</b>	33,123	1,259	-	34,382
Net ECL for the year	576,845	-	-	576,845
Transferred to stage 2	(105,994)	105,994	-	-
<b>Balance, end of the year</b>	<u>503,974</u>	<u>107,253</u>	<u>-</u>	<u>611,227</u>

2019				
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	1,078	-	-	1,078
Net ECL for the year	33,304	-	-	33,304
Transferred to stage 2	(1,259)	1,259	-	-
<b>Balance, end of the year</b>	<u>33,123</u>	<u>1,259</u>	<u>-</u>	<u>34,382</u>

## 5. Investments at Islamic banks

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Investments maturing within 3 months	2,328,036	7,322,641
Investments maturing after 3 months	4,062,368	3,509,514
	6,390,404	10,832,155
ECL provision	(2,328,036)	(2,341,931)
	<u>4,062,368</u>	<u>8,490,224</u>

The movement of Investments at islamic banks is as follows:

2020				
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	8,532,155	-	2,300,000	10,832,155
Net change during the year	(4,441,751)	-	-	(4,441,751)
<b>Balance, end of the year</b>	<u>4,090,404</u>	<u>-</u>	<u>2,300,000</u>	<u>6,390,404</u>

2019				
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	5,072,559	5,000,000	2,300,000	12,372,559
Net change during the year	(1,540,404)	-	-	(1,540,404)
Transferred to stage 2	5,000,000	(5,000,000)	-	-
<b>Balance, end of the year</b>	<u>8,532,155</u>	<u>-</u>	<u>2,300,000</u>	<u>10,832,155</u>

The movement of the ECL provision on investments at islamic banks is as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	41,931	-	2,300,000	2,341,931
<b>Net ECL for the year</b>	(13,895)	-	-	(13,895)
<b>Balance, end of the year</b>	28,036	-	2,300,000	2,328,036

	2019			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	269	18,497	2,300,000	2,318,766
<b>Net ECL for the year</b>	23,165	-	-	23,165
<b>Transferred to stage 1</b>	18,497	(18,497)	-	-
<b>Balance, end of the year</b>	41,931	-	2,300,000	2,341,931

## 6. Direct Islamic financing

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Murabaha receivables	666,577,205	646,319,241
Tawarooq*	152,442,793	-
Ijara muntahia bittamleek	82,694,485	67,045,461
Qard Hasan	-	991,690
Mudaraba financing	24,405,507	30,770,160
Istisna'a financing	26,820,149	16,840,951
Current overdraft accounts	1,170,757	1,277,090
	954,110,896	763,244,611
Suspended profits	(671,828)	(524,741)
ECL allowance	(8,389,202)	(4,990,862)
	945,049,866	757,729,010

\* This item represents the financing for the purchase of a commodity at a deferred bargaining or murabaha price, then selling it to a non-seller to obtain cash at a fair price, and this product allows the bank's customers to obtain cash to cover their needs and obligations in accordance with the provisions and controls of Sharia standard

- Direct Islamic financing is presented net of unearned profits which amounted to U.S. \$ 92,360,279 and U.S. \$ 82,478,277 as at December 31, 2020 and 2019, respectively.
- Downgraded direct Islamic financing net of suspended profits according to PMA regulations amounted to U.S. \$ 19,574,583 representing (%2.05) of gross Islamic financing and U.S. \$ 21,278,703 representing (%2.79) of gross direct Islamic financing as at December 31, 2020 and 2019, respectively.
- Defaulted direct Islamic financing net of suspended profits according to PMA regulations amounted to U.S. \$ 14,362,611 representing (%1.51) of gross Islamic financing and U.S. \$ 12,657,273 representing (%1.51) of gross direct Islamic financing as at December 31, 2020 and 2019, respectively.
- Direct Islamic financing granted to Palestinian National Authority and by its guarantee amounted to U.S. \$ 167,703,598 representing (%17.58) of gross Islamic financing and U.S. \$ 65,729,792 representing (%8.61) of gross Islamic financing as at December 31, 2020 and 2019, respectively.
- Fair value of customers' collaterals against direct Islamic financing according to PMA regulations amounted to U.S. \$ 658,652,599 and U.S. \$ 594,935,336 as at December 31, 2020 and 2019, respectively.
- Islamic financing granted to non-residents amounted to U.S. \$ 3,190,744 and U.S. \$ 938,034 as at December 31, 2020 and 2019, respectively.



- According to PMA circular number (1/2008), defaulted direct Islamic financing for more than 6 y written off from financial statements. These defaulted direct Islamic financing amounted to U.S. \$ and U.S. \$ 684,473 as at December 31, 2020 and 2019, respectively. The impairment provision for Islamic financing and suspended profits balance for defaulted accounts amounted to U.S. \$ 609 U.S. \$ 527,322 respectively.

Movement on the gross direct islamic financing during the year was as follows:

2020				
	Stage 1	Stage 2	Stage 3	Tot
	U.S. \$	U.S. \$	U.S. \$	U.S.
<b>Balance, beginning of the year</b>	633,819,160	107,807,320	21,618,139	763,2
Net change during the year	70,785,254	136,610,449	(16,529,426)	190,8
Transferred to stage 1	7,971,972	(7,852,028)	(119,944)	
Transferred to stage 2	(200,119,832)	200,665,472	(545,640)	
Transferred to stage 3	(6,090,931)	(9,732,351)	15,823,282	
<b>Balance, end of the year</b>	<u>506,365,623</u>	<u>427,498,862</u>	<u>20,246,411</u>	<u>954,1</u>

2019				
	Stage 1	Stage 2	Stage 3	Tot
	U.S. \$	U.S. \$	U.S. \$	U.S.
<b>Balance, beginning of the year</b>	536,444,081	144,568,253	4,209,527	685,2
Net change during the year	94,155,079	(27,379,871)	11,316,569	78,0
Transferred to stage 1	40,568,932	(40,268,692)	(300,240)	
Transferred to stage 2	(32,588,008)	33,628,649	(1,040,641)	
Transferred to stage 3	(4,760,924)	(2,741,019)	7,501,943	
Written off	-	-	(69,019)	
<b>Balance, end of the year</b>	<u>633,819,160</u>	<u>107,807,320</u>	<u>21,618,139</u>	<u>763,2</u>

Movement on the ECL provision on islamic financing during the year was as follows:

2020				
	Stage 1	Stage 2	Stage 3	Tot
	U.S. \$	U.S. \$	U.S. \$	U.S.
Balance, beginning of the year	1,939,482	1,518,557	1,532,823	4,99
Transferred to stage 1	45,212	(11,126)	(34,086)	
Transferred to stage 2	(739,901)	775,054	(35,153)	
Transferred to stage 3	(23,696)	(28,645)	52,341	
Loss of Islamic financing during the year	2,447,531	436,535	1,599,945	4,48
ECL recovery during the year	(170,317)	(289,764)	(606,908)	(1,06
Recovery of impaired Islamic financing	-	-	3,381	
Excluding defaults for more than 6 years	-	-	(85,593)	(8
Foreign currencies differences	-	-	63,530	6
<b>Balance, end of the year</b>	<u>3,498,311</u>	<u>2,400,611</u>	<u>2,490,280</u>	<u>8,38</u>

	2019			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	1,284,570	1,510,084	680,593	3,475,247
Transferred to stage 1	342,357	(342,357)	-	-
Transferred to stage 2	(79,487)	80,567	(1,080)	-
Transferred to stage 3	(20,656)	(81,407)	102,063	-
Loss of Islamic financing during the year	1,356,666	1,800,034	649,955	3,806,655
ECL recovery during the year	(943,968)	(1,448,364)	-	(2,392,332)
Recovery of impaired Islamic financing	-	-	94,885	94,885
Excluding defaults for more than 6 years	-	-	(69,016)	(69,016)
Foreign currencies differences	-	-	75,423	75,423
<b>Balance, end of the year</b>	<b>1,939,482</b>	<b>1,518,557</b>	<b>1,532,823</b>	<b>4,990,862</b>

The movement on suspended profits was as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	524,747	182,612
Suspended profits during the year	419,954	409,411
Suspended profits transferred to revenues	(281,721)	(74,358)
Suspended profits written off for Islamic financing in default for more than 6 years	(8,529)	(2,098)
Foreign currencies differences	17,377	9,180
<b>Balance, end of the year</b>	<b>671,828</b>	<b>524,747</b>

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

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	527,322	553,188
Provision during the year	85,593	69,019
Recovery during the year	(3,381)	(94,885)
<b>Balance, end of the year</b>	<b>609,534</b>	<b>527,322</b>

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

	2020	2019
	U.S. \$	U.S. \$
Public Sector	167,703,598	65,729,792
	167,703,598	65,729,792
<b>Manufacturing and Agricultural</b>		
Manufacturing	33,589,650	38,460,036
Agricultural	36,780,330	32,625,348
	70,369,980	71,085,384
Services	65,541,585	60,027,617
	65,541,585	60,027,617
<b>Wholesale and Retail</b>		
Internal trade	127,584,623	120,961,719
Financing of professions	18,388,027	14,386,180
	145,972,650	135,347,899
<b>Real Estate</b>		
Home and home improvements	112,892,795	96,048,823
Commercial and investment	45,592,957	42,148,307
	158,485,752	138,197,130
<b>Land</b>		
Personal	56,238,620	47,223,920
Investment	102,013,168	96,430,597
	158,251,788	143,654,517
<b>Consumers' Financing</b>		
Car financing	125,091,674	103,615,393
Consumable goods financing	62,022,041	45,062,140
	187,113,715	148,677,533
	953,439,068	762,719,872

## 7. Financial assets at fair value through other comprehensive income

Financial assets at fair value include the following:

	Domestic	Foreign	Total
	U.S. \$	U.S. \$	U.S. \$
<u>December 31, 2020</u>			
Quoted shares	3,564,619	-	3,564,619
Unquoted shares	2,945,006	318,952	3,263,958
	6,509,625	318,952	6,828,577
	Local	Foreign	Total
	U.S. \$	U.S. \$	U.S. \$
<u>December 31, 2019</u>			
Quoted shares	3,939,842	-	3,939,842
Unquoted shares	2,945,006	313,184	3,258,190
	6,884,848	313,184	7,198,032

Some of the bank investments in Unquoted shares as at December 31, 2020 and December 31, 2019 are shown at their fair value with an amount of U.S. \$ 318,952 and U.S. \$ 313,184. An amount of U.S. \$ 5,768 was recorded as a revaluation of foreign company shares to reflect its market value. Bank's management believes that fair values of such financial assets are not materially different from their carrying amounts at the financial statements.

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

	2020	2019
	U.S. \$	U.S. \$
<b>Balance, beginning of the year – Adjusted</b>	(1,874,173)	(1,788,287)
Change in fair value	(369,455)	(85,886)
<b>Balance, end of the year</b>	<u>(2,243,628)</u>	<u>(1,874,173)</u>

## 8. Financial assets at amortized cost

This item represents the Bank's investment in Islamic Sukuk at an expected rate of return from %2.55 to %7.44, for a period of 8 months to 9 years.

	2020	2019
	U.S. \$	U.S. \$
Financial assets at amortized cost	30,513,425	31,513,425
Provision for impairment of financial assets at amortized cost	(1,465,021)	(1,571,163)
	<u>29,048,404</u>	<u>29,942,262</u>

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	20,750,000	9,500,000	1,263,425	31,513,425
Net change during the year	2,250,000	(3,250,000)	-	(1,000,000)
<b>Balance, end of the year</b>	<u>23,000,000</u>	<u>6,250,000</u>	<u>1,263,425</u>	<u>30,513,425</u>

	2019			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	28,250,000	5,000,000	1,263,425	34,513,425
Net change during the year	(3,000,000)	-	-	(3,000,000)
Transferred to stage 2	(4,500,000)	4,500,000	-	-
<b>Balance, end of the year</b>	<u>20,750,000</u>	<u>9,500,000</u>	<u>1,263,425</u>	<u>31,513,425</u>

The movement of the Provision for impairment of financial assets at amortized cost is as follows:

	2020			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	11,655	296,083	1,263,425	1,571,163
Net ECL for the year	146,865	(253,007)	-	(106,142)
<b>Balance, end of the year</b>	<u>158,520</u>	<u>43,076</u>	<u>1,263,425</u>	<u>1,465,021</u>

	2019			
	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Balance, beginning of the year</b>	11,655	249,083	1,263,425	1,524,163
Net ECL for the year	-	47,000	-	47,000
<b>Balance, end of the year</b>	<u>11,655</u>	<u>296,083</u>	<u>1,263,425</u>	<u>1,571,163</u>

## 9. Investment properties

Following is the movement on Investment properties:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	25,677,869	17,800,433
Additions during the year	159,000	5,741,544

Transferred from assets obtained by the Bank by calling on collateral – (Note 15)	-	949,397
Change in fair value during the year	48,050	1,186,495
Balance, end of the year	<u>25,884,919</u>	<u>25,677,869</u>

Following is the movement on investment properties reserve:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	7,219,509	6,350,092
Unrealized gains on revaluation	48,050	1,186,495
Deferred tax liabilities	(12,841)	(317,078)
Balance, end of the year	<u>7,254,718</u>	<u>7,219,509</u>

## 126

A I B  
Annual Report 2020

A I B  
Annual Report 2020

A I B  
Annual Report 2020

A I B  
Annual Report 2020



### 11. Project in progress

This item represents the balance of branches and offices under construction as at 31 December 2020 and 2019. The value of the expansion and leasehold improvements of the Bank's headquarters and branches. The expected estimated cost of completion of the projects is progress is U.S. \$ 942,742. These projects are expected to be completed in 2022.

Movement on project in progress is as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	1,049,063	1,315,297
Additions	3,315,951	2,228,445
Transferred to property and equipments	(3,660,280)	(1,626,743)
Transferred to Intangible assets	-	(868,036)
Balance, end of the year	704,734	1,049,063

### 12. Right of use assets

Following is the movement of right of use:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	8,287,217	-
Impact of IFRS (16) implementation	-	9,235,912
Balance, beginning of the year, adjusted	8,287,217	9,235,912
Additions	665,218	-
Depreciation for the year	(1,016,304)	(948,695)
Balance, end of the year	7,936,131	8,287,217

### 13. Deferred tax assets

The movement on the deferred tax assets was as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	2,774,291	2,238,434
Additions	932,416	592,443
Amortization	(59,590)	(56,586)
Balance, end of the year	3,647,117	2,774,291

The balance of deferred tax assets represents the result of impairment losses related to investments with Islamic banks and financial assets at amortized cost, which was previously recognized in the income statement, in addition to stage 1 and 2 ECL allowances on Islamic Financing, the provision for employees' indemnity and the provision for legal cases.

#### 14. Intangible assets

Intangible assets include computer systems and programs. The movement on intangible assets was as follows:

	2020	2019
	U.S. \$	U.S. \$
<b>Cost</b>		
Balance, beginning of the year	5,481,704	4,530,787
Additions	497,309	82,881
Transferred from projects in progress	-	868,036
Balance, end of the year	5,979,013	5,481,704
<b>Amortization</b>		
Balance, beginning of the year	4,080,643	3,572,161
Amortization for the year	450,136	508,482
Balance, end of the year	4,530,779	4,080,643
<b>Net book value</b>	<b>1,448,234</b>	<b>1,401,061</b>

#### 15. Other assets

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Clearing checks	12,571,202	13,398,864
Prepaid expenses	1,347,898	1,428,753
Accrued revenues not received	1,256,909	613,836
Account receivable, advances and temporary expenses	3,937,839	455,737
Stationery and printings	217,721	141,039
	<b>19,331,569</b>	<b>16,038,229</b>

#### 16. Istidama loans from PMA

This item represents the value of Palestine Monetary Authority (PMA) loans in accordance with PMA instructions No. (22/2020) with the aim of mitigating the economic effects of the Coronavirus (COVID 19) crisis on economic activities and projects, especially small and medium enterprises, so that PMA collects a return of 0.5% on financing granted by it and the Bank is committed to collecting a diminishing return, up to a maximum of 3% of borrowers. The balance of Istidama loans from PMA as of December 31, 2020 was U.S. \$ 3,186,310.

#### 17. Palestine Monetary Authority deposits

	2020	2019
	U.S. \$	U.S. \$
Swap deposits maturing within 3 months	43,844,655	17,068,287
Investment deposits maturing within 3 months	3,109,550	40,696,125
Incentivize deposits maturing more than 3 months*	20,000,000	-
	<b>66,954,205</b>	<b>57,764,412</b>

\* This item represents the value of incentivize deposits from PMA with the aim of mitigating the economic effects of the Coronavirus (COVID 19) crisis on the Bank's activities and the subsequent losses as a result of postponing customers' installments during the year 2020. These deposits are due within three years and PMA collects a return of 0.5% on it.

## 18. Banks and financial institutions' deposits

	2020	2019
	U.S. \$	U.S. \$
<b>Banks and financial institutions inside Palestine:</b>		
Current and demand accounts	749,930	323,475
Swap deposits maturing within 3 months	-	14,049,053
Banks deposits and financial institutions maturing within 3 months	732,676	16,500,000
Banks deposits and financial institutions maturing after than 3 months	24,440,016	3,680,500
	<u>25,922,622</u>	<u>34,553,028</u>
<b>Banks and financial institutions outside Palestine:</b>		
Current and demand accounts	1,305,324	1,457,015
	<u>1,305,324</u>	<u>1,457,015</u>
	<u>27,227,946</u>	<u>36,010,043</u>

## 19. Customers' deposits

	2020	2019
	U.S. \$	U.S. \$
Current and demand accounts	<u>325,966,065</u>	<u>251,112,205</u>
– Total deposits comprise of customers' deposits (Note 19), cash margins (Note 20) and unrestricted investment accounts (Note 26) which amounted to U.S. \$ 1,296,218,801 and U.S. \$ 1,023,561,363 as at December 31, 2020 and 2019, respectively.		
– Restricted deposits amounted to U.S. \$ 54,205,257 and U.S. \$ 27,550,617 representing %4.18 and %2.69 of the total deposits as at December 31, 2020 and 2019, respectively.		
– Government deposits amounted to U.S. \$ 12,478,087 and U.S. \$ 14,879,652 representing %0.96 and %1.45 of the total deposits as at December 31, 2020 and 2019, respectively.		
– Quasi-governmental deposits amounted to U.S. 5,073,244 and U.S. \$ 2,741,281 representing %0.39 and %0.27 of the total deposits as at December 31, 2020 and 2019, respectively.		
– Dormant deposits amounted to U.S. \$ 5,952,964 and U.S. \$ 4,232,829 representing %0.46 and %0.41 of the total deposits as at December 31, 2020 and 2019, respectively.		
– Non-profit bearing deposits amounted to U.S. \$ 325,966,065 and U.S. \$ 251,112,205 representing %25.15 and %24.53 of the total deposits as at December 31, 2020 and December 31, 2019, respectively.		

## 20. Cash margins

	2020	2019
	U.S. \$	U.S. \$
Direct Islamic financing	54,632,962	43,666,163
Indirect Islamic financing	12,502,629	8,772,279
Other margins	6,607,030	5,485,894
	<u>73,742,621</u>	<u>57,924,336</u>

Cash margins on direct and indirect Islamic financing participates in profits.

## 21. Sundry provisions

This item represents the following provisions:

	Balance, beginning of the year U.S. \$	Additions for the year U.S. \$	Used during the Year U.S. \$	Balance, end of the year U.S. \$
<b>December 31, 2020</b>				
Provision for employees' indemnity	5,783,828	1,147,373	(222,981)	6,708,220
Provision for legal cases	22,463	-	-	22,463
	<u>5,806,291</u>	<u>1,147,373</u>	<u>(222,981)</u>	<u>6,730,683</u>
<b>December 31, 2019</b>				
Provision for employees' indemnity	4,790,230	1,205,341	(211,743)	5,783,828
Provision for legal cases	22,463	-	-	22,463
	<u>4,812,693</u>	<u>1,205,341</u>	<u>(211,743)</u>	<u>5,806,291</u>

## 22. Tax provisions

The movement on tax provisions during the years ended December 31, 2020 and 2019 was as follows:

	2020 U.S. \$	2019 U.S. \$
Balance, beginning of the year	1,359,203	31,388
Provision for the year	3,822,826	3,479,857
Payments during the year	(218,962)	(507,670)
Advance payments	(1,755,462)	(1,644,372)
Balance, end of the year	<u>3,207,605</u>	<u>1,359,203</u>

Income tax expense reported in income statement represents the following:

	2020 U.S. \$	2019 U.S. \$
Provision for the year	3,822,826	3,479,857
Deferred tax assets additions	(932,416)	(592,443)
Deferred tax assets amortization	59,590	56,586
Balance, end of the year	<u>2,950,000</u>	<u>2,944,000</u>

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

	2020 U.S. \$	2019 U.S. \$
Bank's accounting profit before tax	10,964,336	11,954,282
Profit not subject to tax	(3,894,165)	(3,819,068)
Non-deductible tax expenses	2,745,979	2,768,648
Profit subject to Value Added Tax (VAT)	9,816,150	10,903,862
Less: VAT on income	(1,353,952)	(1,503,981)
Revenues not subject to income tax	(1,753,511)	(1,439,849)
Taxable income	6,708,687	7,960,032
Statutory income tax	731,303	886,103
Total taxes for the year	<u>2,085,255</u>	<u>2,390,084</u>
Tax provided by the Bank	<u>3,822,836</u>	<u>3,479,857</u>
Effective tax rate	<u>%35</u>	<u>%29</u>

The Bank reached a final settlement with the tax departments with regard to the Bank's results of operations for the years from 2010 to 2017, except for the year 2012. During 2020, the Bank reached a final settlement with the tax departments on its 2018 results of operations. The actual amounts that could be paid depend on the final results of settlements with the tax authorities.

As of December 31, 2020, and 2019 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 resulting from financing small and medium enterprises equals %10.

### 23. Deferred tax liabilities

The movement on the deferred tax liabilities is as follows:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	2,632,994	2,315,916
Additions	12,841	317,078
Balance, end of the year	2,645,835	2,632,994

The balance of deferred tax liabilities is a result of the revaluation of investment properties which was presented within the investment properties reserve in equity.

### 24. Lease liabilities

Following is the movement on lease liabilities:

	2020	2019
	U.S. \$	U.S. \$
Balance, beginning of the year	8,447,555	-
Impact of IFRS (16) implementation	-	9,235,912
Balance, beginning of the year, adjusted	8,447,555	9,235,912
Additions	665,218	-
Payments	(1,146,568)	(1,081,870)
Cost of lease liabilities during the year	286,739	293,513
Balance, ending of the year	8,252,944	8,447,555

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

The liabilities related to rent contracts are deducted using 5% discount rate as of December 31, 2020 and 2019.

	2020	2019
	U.S. \$	U.S. \$
Short term liabilities	881,112	901,889
Long term liabilities	7,371,832	7,545,666
	8,252,944	8,447,555

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the income statement for the year ended December 31, 2020 and 2019 amounted to U.S. \$ 73,209 and U.S. \$ 195,194.

## 25. Other liabilities

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Certified checks	14,249,895	8,344,105
Temporary accounts and intermediary accounts	3,082,139	8,187,965
Trade payables	1,430,368	494,868
Return on unrestricted investment accounts	2,433,883	1,891,797
Accrued taxes	667,554	533,406
Board of Directors remuneration	220,000	237,000
Provision for commitments and contingencies (Note 39)	176,812	31,261
Other credit balances	120,072	62,477
	<u>22,380,723</u>	<u>19,782,879</u>

## 26. Unrestricted investment accounts

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Time deposits	389,145,762	292,477,505
Saving deposits	507,364,353	422,047,317
	<u>896,510,115</u>	<u>714,524,822</u>

## 27. Reserves

### Statutory reserve

As required by the Companies' Law and Banking Law, 10% of the net profit after tax 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 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 credit facilities and suspended interest and profit and 0.5% of indirect Islamic financing. According to PMA's generalization number (53/2013), the general banking risks reserve is not held against the small and medium sized companies if the conditions indicated in the generalization are applicable on it. The directed credit facilities granted to small and medium sized companies amounted to U.S.\$12,742,182 as at December 31, 2020 and an amount of U.S. \$ 9,925,417 as at December 31, 2019. The reserve is not to be utilized or reduced without PMA's prior approval. During 2018 the Bank adopted IFRS (9) and recorded the impact of IFRS (9) from this reserve, in reference to Stage 1 and Stage 2 expected credit losses, as per PMA generalization number (2/2018). The reserve has increased through the year in the amount of U.S. \$ 561,928.

	2020	2019
	U.S. \$	U.S. \$
Beginning Balance	7,812,746	7,515,767
Transferred to the reserve	1,411,928	296,979
Released from reserve	(850,000)	-
	<u>8,374,674</u>	<u>7,812,746</u>



### **Pro-cyclicality reserve**

This reserve represents the amount of risk reserve deducted in accordance with PMA's regulations number (6/2015) based on 15% of annual net profit in accordance with PMA's instruction (6/2015) to support Banks' capital against banking risks. The appropriation shall continue until total reserve balance equals 20% of paid in share capital, the reserve is not to be utilized or reduced without PMA's prior approval. During 2019, PMA issued instructions No. (13/2019) regarding capital source, this is to be calculated as a percentage of risk-weighted assets determined by PMA and ranging between (0% - 2.5%). PMA decided to set the percentage for 2020 and 2019 to be 0.66% of risk weighted assets. The Bank didn't deduct any amount to this reserve as the amount of the provision is not lower than what is required from PMA.

### **28. Financing and investment revenues**

This item represents revenues from the following:

	2020	2019
	U.S. \$	U.S. \$
Murabaha investments	38,827,133	38,307,065
Ijara muntahia bittamleek	3,292,921	2,460,205
Tawarooq Revenue	2,250,949	-
Income from investments in Islamic Sukuk	1,662,154	1,733,565
Mudaraba	1,254,195	1,065,045
Istisna'a financing	1,087,590	897,349
Income from investments in Islamic institutions banks	923,861	751,213
	<u>49,298,803</u>	<u>45,214,442</u>

### **29. Return on unrestricted investment accounts**

This item represents revenues as following:

	2020	2019
	U.S. \$	U.S. \$
Time deposits	11,227,793	7,899,201
Saving deposits	319,753	268,744
Cash margins	286,254	45,624
	<u>11,833,700</u>	<u>8,213,569</u>

### **30. Net commissions**

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
<b>Commissions received on:</b>		
Accounts' management, cash withdrawals and deposits and outgoing transfers	2,580,717	2,441,194
Checks under collection, post-dated checks and checkbooks	1,118,451	1,137,485
ATMs and VISA cards	731,008	765,100
Indirect Islamic financing	366,493	468,328
Dormant accounts	150,405	105,401
Other	601,603	432,730
	<u>5,548,677</u>	<u>5,350,238</u>
<b>Commissions paid</b>	<u>(806,219)</u>	<u>(804,428)</u>
	<u>4,742,458</u>	<u>4,545,810</u>

### 31. Financial assets gain

This item represents the net of dividends distributed and the losses resulting from the sale of financial assets.

	2020	2019
	U.S. \$	U.S. \$
Revenue from asset distribution	372,596	373,642
	<u>372,596</u>	<u>373,642</u>

### 32. Other revenues

This item represents revenues from the following:

	2020	2019
	U.S. \$	U.S. \$
Rental income from investment properties	230,000	230,000
Others	295,550	741,974
	<u>525,550</u>	<u>971,974</u>

### 33. Personnel expenses

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Salaries and related benefits	11,384,922	10,436,556
VAT on salaries	1,821,588	1,669,849
Provision for employees' indemnity	1,147,373	1,205,342
Medical expenses	648,367	533,308
The Bank's contribution in the provident fund*	491,521	434,024
Training expenses	79,479	201,391
Travel, accommodation and transportation	108,817	171,464
Currency differences allowance	-	61,533
	<u>15,682,067</u>	<u>14,713,467</u>

\* During the year 2017, the Bank established a provident fund for its employees. The Bank deducts %5 of each employee's monthly basic salary and matches it with an additional %5 as the Bank's contribution for employees in service for less than 5 years, %8 for employees in service for the period from 5 years to less than 10 years and %10 for employees in service for the period of 10 years and more. The Fund's balance is kept in a separate bank account within customers' deposits. This item represents the Bank's contribution in this fund.

### 34. Other operating expenses

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Deposit Insurance Corporation fees*	1,784,865	2,578,132
Paid banks' profits	667,035	1,353,241
Telephone, fax and postage	1,408,063	1,310,868
Maintenance and cleaning	1,493,829	1,193,935
Fees, license and subscriptions	901,162	1,011,797
Cash shipping costs	671,533	660,151
Insurance	594,830	651,306
Advertisements and marketing	465,101	634,238
Utilities	663,561	570,518
Board of Directors' remuneration	472,198	512,420
Stationery, printings and supplies	453,062	476,680
Savings accounts gift box	159,957	476,003
Vehicles and transportation	382,194	427,220
Cost of lease liabilities	286,739	293,613
Professional and consultancy fees	185,479	220,265
Rents	73,209	195,194
Social responsibility (donations)**	352,191	112,083
Hospitality	92,672	89,216
VAT on leased properties	31,724	31,724
Guarding	40,627	22,831
Sundry	660,519	672,881
	<u>11,840,550</u>	<u>13,494,316</u>

\* Banks are required to accrue and account for annual subscription fees for Palestine Deposit Insurance Corporation at a rate of %0.3 of total deposits specified by law number (7) for the year 2013. As of January 1, 2019, Palestine Deposit Insurance Corporation issued a circular no. (03/2019) regarding reducing the minimum subscription fees to (%0.2 - %0.8), and as of January 1, 2020 the subscription fees will be 0.2% of the average total deposits instead of 0.3%. In October 27, 2020 a circular from Palestine Deposit Insurance Corporation no. (02/2020) regarding reducing the minimum subscription fees to (0.1% - 0.8%) as at October 1, 2020, the percentage of the annual subscription will be 0.1% of total average customer deposits instead of 0.2% of the average total deposits.

\*\* The Bank receives donation applications in connection with its social responsibility covering all kinds of charities through its branches located in different cities. These applications are sent to the Planning and Research Department within the General Administration to be assessed by executive management, which studies applications, ensures accuracy of all information, and gives recommendations to the Shari'a Supervisory Board of the Bank to give their Shari'a opinion. If the application is accepted, beneficiaries are informed, and payments are made directly to suppliers. Donations comprise %4.39 and %1.24 of net income as at December 31, 2020 and 2019, respectively.

### 35. Depreciation and amortization

This item represents depreciation and amortization of the following:

	2020	2019
	U.S. \$	U.S. \$
Property and equipment	2,953,931	2,604,776
Intangible assets	450,136	508,482
Right of use assets	1,016,304	948,695
	<u>4,420,371</u>	<u>4,061,953</u>

### 36. Palestine Monetary Authority Penalties

This item represents a fine imposed by PMA on the Bank during 2019 due to the Bank's violation of some of PMA laws and instructions.

### 37. Expected credit losses

This item represents the allocated amounts for IFRS 9 effect, according to the table below:

	2020	2019
	U.S. \$	U.S. \$
ECL provision/(recovery) of balances at banks and financial institutions (Note 4)	576,845	33,304
ECL provision of investments at islamic banks (Note 5)	(13,895)	23,165
ECL provision/(recovery) of direct Islamic financing (Note 6)	3,417,022	1,414,323
ECL provision of financial assets at amortized cost (Note 8)	(106,142)	47,000
ECL recovery of indirect Islamic financing (Note 39)	145,551	-
Loss of sale of financial assets at amortized cost	-	136,773
	<u>4,019,381</u>	<u>1,654,565</u>

### 38. Zakat

Each shareholder bears the responsibility for Zakat payment, in which the Bank, with the consent of Shari'a Supervisory Board, annually informs the shareholders with the amount of Zakat due on each share. Zakat per share for the year 2020 amounted to U.S. \$ 0.01456. (2019 amounted to U.S. \$ 0.01596).

### 39. Commitments and contingencies

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

	2020	2019
	U.S. \$	U.S. \$
Letter of credits	6,811,288	10,499,619
Letter of guarantees	41,458,554	26,502,298
Acceptances	5,861	146,000
Savings accounts gift box	388,850	470,100
Unutilized limits of direct Islamic financing	112,862,248	56,660,662
	<u>161,526,801</u>	<u>94,278,679</u>

The movement on Credit loss reserve for the year 2020 as following:

	Stage 1	Stage 2	Stage 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Beginning Balance	31,261	-	-	31,261
Net credit loss for the year end	145,551	-	-	145,551
Ending balance	176,812	-	-	176,812

The balance of the expected credit loss is shown in other liabilities (Note 25).

#### 40. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	2020	2019
	U.S. \$	U.S. \$
Cash and balances with PMA	401,742,907	331,388,262
Add: Balances at banks and financial institutions maturing within 3 months	79,516,323	48,520,952
Investments at Islamic banks maturing within 3 months	2,328,036	7,322,641
Less: PMA deposits	(46,954,205)	(57,764,412)
Banks and financial institutions' deposits maturing within 3 months	(2,787,930)	(32,329,543)
Statutory cash reserve	(111,558,693)	(89,004,825)
	322,286,438	208,133,075

#### 41. Basic and diluted earnings per share

This item represents the following:

	2020	2019
	U.S. \$	U.S. \$
Profit for the year	8,014,336	9,010,282
	Shares	Shares
Weighted average number of subscribed shares	88,469,252	88,469,252
	U.S. \$	U.S. \$
Basic and diluted earnings per share	0.091	1.02

**42. Sources of financing of Bank's assets and investments**

This item represents the following:

	2020			2019		
	Joint financing U.S. \$	Self- financing U.S. \$	Total U.S. \$	Joint financing U.S. \$	Self- financing U.S. \$	Total U.S. \$
Cash and balances with PMA	401,742,907	-	401,742,907	331,388,262	-	331,388,262
Balances at banks and financial institutions	88,072,938	-	88,072,938	61,180,505	-	61,180,505
Investments at Islamic banks	4,062,368	-	4,062,368	8,490,224	-	8,490,224
Direct Islamic financing	945,049,866	-	945,049,866	757,729,010	-	757,729,010
Financial assets at fair value through other comprehensive income	-	6,828,577	6,828,577	-	7,198,032	7,198,032
Financial assets at amortized cost	-	29,048,404	29,048,404	-	29,942,262	29,942,262
Investment properties	-	25,884,919	25,884,919	-	25,677,869	25,677,869
Property and equipment	-	23,291,018	23,291,018	-	20,772,355	20,772,355
Right of use assets	-	7,936,131	7,936,131	-	8,287,217	8,287,217
Project in progress	-	704,734	704,734	-	1,049,063	1,049,063
Deferred tax assets	-	3,647,117	3,647,117	-	2,774,291	2,774,291
Intangible assets	-	1,448,234	1,448,234	-	1,401,061	1,401,061
Other assets	12,571,202	6,760,367	19,331,569	13,398,864	2,639,365	16,038,229
	<u>1,451,499,281</u>	<u>105,549,501</u>	<u>1,557,048,782</u>	<u>1,172,186,865</u>	<u>99,741,515</u>	<u>1,271,928,380</u>



#### 43. Cash and stock dividends

In its meeting held on March 25, 2020, the General Assembly approved %4.71 cash dividends distributions from the par value of the share which amounted to U.S. \$ 4,000,000, for the results of the Bank's operations in 2019. In its extraordinary meeting held on March 25, 2020 the General Assembly approved %4.18 stock dividends distributions from the par value of the share which amounted to U.S. \$ 3,550,000.

#### 44. Additional paid-in capital

The General Assembly in its extraordinary meeting held on April 2, 2017 approved the issuance of 25 million shares through secondary public offering at U.S. \$ 1 par value each, plus additional paid-in capital of U.S. \$ 0.25 per share. The new shares were subscribed and resulted in U.S. \$ 25,000,000 as paid-in capital and U.S. \$ 6,250,000 as additional paid-in capital.

#### 45. Related party transactions

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

	Nature of relationship	2020 U.S. \$	2019 U.S. \$
<b><u>Statement of financial position items:</u></b>			
Direct Islamic financing	Board of Directors and executive management	43,101,199	48,910,519
Deposits	Board of Directors and executive management	42,110,857	19,265,906
Board of Directors' accrued remuneration	Board of Directors	220,000	237,000
<b><u>Statement of financial position items</u></b>			
Indirect Islamic financing	Board of Directors and executive management	19,910,341	29,156,461
<b><u>Income statement items:</u></b>			
Profit received	Board of Directors and executive management	1,905,022	1,932,003
Profit paid	Board of Directors and executive management	668,893	798,266
—	Direct Islamic financing granted to related parties as at December 31, 2020 and 2019 represent %4.56 and %6.45 of the net Islamic financing, respectively.		
—	Direct Islamic financing granted to related parties as at December 31, 2020 and 2019 represent %37.63 and %45.63 of the Bank's regulatory capital respectively.		
—	Average profit on Islamic financing in U.S. \$ granted to related parties ranges between %1.72 to %6 during 2020.		

The Board of Directors and executive management remuneration (Salaries, Bonus and other benefits) are as follows:

	2020	2019
	U.S. \$	U.S. \$
Board of Directors' remuneration *	220,000	237,000
Board of Directors' travel and transportation expenses*	217,000	275,420
Executives management salaries and related benefits	1,125,893	984,401
Executives management end of service indemnity	81,875	70,416

\* Following are the details of the Board of Directors' bonuses and travel expenses for the years 2020 and 2019:

	2020	2019
	U.S. \$	U.S. \$
Atef Alawneh	61,760	69,541
Shadi Al-Khateeb	47,258	54,541
Rushdi Al-Ghalayeni	47,258	54,541
Sam Buhour	41,758	49,541
Mohammad Nasser	39,758	46,041
Safa Nasser Eldeen	38,758	28,030
Samar Nakhleh	38,758	21,021
Mohammad AbuRamadan	38,758	43,541
Salman Qumaileh	36,341	46,541
Maher Farah	35,258	34,534
Faysal Al-Shawa	11,835	54,041
Khalid Anabtawi	-	9,507
Haytham Barakat	-	1,000
	437,000	512,420

#### Policy of remuneration and bonuses

The Bank has clear governing rules of practice of remuneration and bonuses, where the aim of this policy is to establish governance, control, fair and equitable distribution of rewards for all employees within clear and specific instructions based on the level of performance taking into account all types of risks to which the Bank might be exposed to in addition to PMA instructions.

#### 46. 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 and segment:

	Palestine	Jordan	Israel	Others	Total
<b>December 31, 2020</b>	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances with PMA	401,742,907	-	-	-	401,742,907
Balances at banks and financial institutions	-	33,628,945	23,462,065	30,981,928	88,072,938
Investments at Islamic banks	-	-	-	4,062,368	4,062,368
Direct Islamic financing	941,828,577	34,994	3,129,124	26,626	945,049,866
Financial assets at fair value through other comprehensive income	6,828,577	-	-	-	6,828,577
Financial assets at amortized cost	-	-	-	29,048,404	29,048,404
Investment properties	25,884,919	-	-	-	25,884,919
Property and equipment	23,291,018	-	-	-	23,291,018
Projects in progress	704,734	-	-	-	704,734
Right of use assets	7,936,131	-	-	-	7,936,131
Deferred tax assets	3,647,117	-	-	-	3,647,117
Intangible assets	1,448,234	-	-	-	1,448,234
Other assets	19,331,569	-	-	-	19,331,569
<b>Total assets</b>	<b>1,432,674,328</b>	<b>33,663,939</b>	<b>26,591,189</b>	<b>64,119,326</b>	<b>1,557,048,782</b>
<b>Commitments and Contingencies</b>					
Letter of credit	6,811,288	-	-	-	6,811,288
Letter of guarantees	41,458,554	-	-	-	41,458,554
Acceptances	5,681	-	-	-	5,681
Savings accounts gifts box	388,850	-	-	-	388,850
Unutilized Islamic financing limits	112,862,248	-	-	-	112,862,248
	<b>161,526,801</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161,526,801</b>
	Palestine	Jordan	Israel	Others	Total
<b>December 31, 2019</b>	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances with PMA	331,388,262	-	-	-	331,388,262
Balances at banks and financial institutions	13,994,924	19,026,119	10,177,776	17,981,686	61,180,505
Investments at Islamic banks	-	-	-	8,490,224	8,490,224
Direct Islamic financing	749,283,634	445,376	-	8,000,000	757,729,010
Financial assets at fair value through other comprehensive income	6,884,849	-	-	313,183	7,189,032
Financial assets at amortized cost	-	-	-	29,942,262	29,942,262
Investment properties	25,677,869	-	-	-	25,677,869
Property and equipment	20,772,355	-	-	-	20,772,355
Right of use assets	8,287,217	-	-	-	8,287,217
Projects in progress	1,049,063	-	-	-	1,049,063
Deferred tax assets	2,774,291	-	-	-	2,774,291
Intangible assets	1,401,061	-	-	-	1,401,061
Other assets	16,038,229	-	-	-	16,038,229
<b>Total assets</b>	<b>1,177,551,754</b>	<b>19,471,495</b>	<b>10,177,776</b>	<b>64,727,355</b>	<b>1,271,928,380</b>
<b>Commitments and Contingencies</b>					
Letter of credit	10,499,619	-	-	-	10,499,619
Letter of guarantees	26,502,298	-	-	-	26,502,298
Acceptances	146,000	-	-	-	146,000
Savings accounts gifts box	470,100	-	-	-	470,100
Unutilized Islamic financing limits	56,660,662	-	-	-	56,660,662
	<b>94,278,679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,278,679</b>

	2020			2019		
	Assets	Liabilities and unrestricted investment accounts and equity	Commitments and contingencies	Assets	Liabilities and unrestricted investment accounts and equity	Commitment and contingencies
<b>According to segment</b>	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Retail	275,356,843	1,074,790	388,850	242,991,173	863,196,380	616,091
Corporate	547,518,244	341,173,002	140,371,419	514,737,837	276,928,623	93,662,588
Small and medium co.	122,174,779	-	20,766,532	-	-	-
Treasury	529,755,194	97,368,461	-	438,199,285	93,774,455	-

Others	82,243,722	43,716,862	-	76,000,085	38,028,922	-
Total	<u>1,557,048,782</u>	<u>1,557,048,782</u>	<u>161,526,801</u>	<u>1,271,928,380</u>	<u>1,271,928,380</u>	<u>94,278,679</u>

## 47. Risk management

The Bank manages, assesses, and monitors its operating risks on an ongoing basis in order to limit it to an acceptable level. The Bank identified assets that are subject to various risks (operating risk, credit risk, and market risk). The tasks and monitoring responsibilities concerning risk management are divided between the Bank's employees in all management levels.

### Risk management process

The Board of Directors is responsible for identifying and controlling risks. In addition, there are several parties in different departments who are also responsible for risk management. The Board of Directors is responsible for developing the overall risk management approach and for approving the risk management strategies and principles.

The Bank has established policies and procedures to control risks and mitigate their effect as much as possible. The Risk Management Department monitors the effectiveness of the risk management process on a monthly basis.

The Bank discloses any information relevant to the financial statements users that pertain to the nature and extent of the risks that apply to the Bank and its financial instruments as at the financial statements date. They are as following:

### 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, through credit risk management, sets ceilings for direct islamic financing (retail or corporate) and total 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.

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

	2020	2019
	U.S. \$	U.S. \$
<b><u>Statement of financial position items:</u></b>		
Balances with Palestine Monetary Authority	178,779,736	111,564,307
Balances at banks and financial institutions	88,072,938	61,180,505
Investments at Islamic banks	4,062,368	8,490,224
Direct Islamic financing	945,049,866	757,729,010
Financial assets at amortized cost	29,048,404	29,942,262
Other assets	17,765,950	14,468,437
<b>Total statement of financial position items</b>	<b>1,262,779,262</b>	<b>983,374,745</b>
<b><u>Commitments and contingencies:</u></b>		
Letter of credit	6,811,288	10,499,619
Letter of guarantee	41,458,554	26,502,298
Acceptances	5,861	146,000
Savings accounts gift box	388,850	470,100
Unutilized Islamic financing limits	112,862,248	56,660,662
<b>Total commitments and contingencies</b>	<b>161,526,801</b>	<b>94,278,679</b>

**A. Distribution of exposures by classification stages in accordance with IFRS 9 as of 31 December 2020:**

	Stage 1	Stage 2	Stage 3	2020	2019
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Public sector	167,703,598	-	-	167,703,598	65,5
Manufacturing and agricultural	32,558,418	63,538,451	18,362	96,115,231	70,5
Service sector	27,767,263	43,268,664	8,101,145	79,137,072	59,6
Wholesale and retail trade	62,352,041	97,160,795	1,934,053	161,446,889	134,4
Real estate	63,590,340	99,090,387	468,591	163,149,318	137,2
Land	66,177,924	103,122,523	5,699,373	174,999,820	142,6
Consumption financing	82,717,728	18,917,431	862,779	102,497,938	147,6
Banks and financial institutions	255,488,729	15,426,313	-	270,915,042	181,2
Financial assets at amortized cost	22,841,480	6,206,924	-	29,048,404	29,9
Other financial assets	17,765,950	-	-	17,765,950	14,4
<b>Total</b>	<b>798,963,471</b>	<b>446,731,488</b>	<b>17,084,303</b>	<b>1,262,779,262</b>	<b>983,3</b>

**B. Distribution of exposures by classification stages in accordance with IFRS 9 as of 31 December 2020:**

	Stage 1	Stage 2	Stage 3	2020	2019
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Palestine	700,667,690	439,547,207	17,084,303	1,157,299,200	889,31
Jordan	20,856,303	977,357	-	21,833,660	19,47
Israel	11,413,220	-	-	11,413,220	10,17
Other	66,026,258	6,206,924	-	72,233,182	64,41
<b>Total</b>	<b>798,963,471</b>	<b>446,731,488</b>	<b>17,084,303</b>	<b>1,262,779,262</b>	<b>983,37</b>

**C. Fair value for net credit exposures**

	Fair value of collaterals									
	Total exposure	Cash margins	Accepted bank guarantees	Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
<b>December 31, 2020</b>										
<b>Credit exposures relating to items on statement of financial position:</b>										
Cash and balances at Palestine Monetary Authority	178,779,736	-	-	-	-	-	-	-	178,779,736	-
Balances at banks and financial institutions	88,684,165	-	-	-	-	-	-	-	88,684,165	611,227
Investments at Islamic banks	6,390,404	-	-	-	-	-	-	-	6,390,404	2,328,036
Direct Islamic financing										
Individuals	274,500,429	21,323,195	2,553,831	105,956,088	6,906,658	32,464,258	15,087,181	184,271,211	90,229,218	2,995,931
Small and medium size business	109,738,948	1,470,953	1,663,799	69,574,389	4,535,148	11,495,581	1,553,035	90,292,905	19,446,043	1,961,668
Large corporate	401,283,213	25,426,288	4,704,879	196,741,920	12,824,457	70,102,009	74,288,930	384,088,483	17,194,730	2,546,895
Public sector	168,588,306	-	-	-	-	-	-	-	168,588,306	884,708
Financial assets at amortized cost	30,513,425	-	-	-	-	-	-	-	30,513,425	1,465,021
Other assets	17,765,950	-	-	-	-	-	-	-	17,765,950	-
<b>Total</b>	<b>1,276,244,576</b>	<b>48,220,436</b>	<b>8,902,509</b>	<b>372,272,397</b>	<b>24,266,263</b>	<b>114,061,848</b>	<b>90,929,146</b>	<b>658,652,599</b>	<b>617,591,977</b>	<b>12,793,486</b>
Letters of credit	6,811,288	116,997	-	-	-	-	-	116,997	6,694,291	8,311
Letters of guarantee	41,458,554	4,106,131	-	-	-	-	-	4,106,131	37,352,423	46,373
Other exposures	113,256,959	14,886,531	-	-	-	-	-	14,886,531	98,370,428	122,128



# December 31, 2019

## Credit exposures relating to items on statement of financial position:

	Fair value of collaterals									
	Total exposure	Accepted bank guarantees		Real estate	Quoted stocks	Vehicles and equipment	Others	Total collaterals	Net Exposure	ECL
	U.S. \$	U.S. \$	U.S. \$							U.S. \$
Cash and balances at Palestine Monetary Authority	111,564,307	-	-	-	-	-	-	-	111,564,307	-
Balances at banks and financial institutions	61,214,887	-	-	-	-	-	-	-	61,214,887	34,382
Investments at Islamic banks	10,832,155	-	-	-	-	-	-	-	10,832,155	2,341,931
Direct Islamic financing										
Individuals	243,677,063	19,260,415	2,288,711	95,706,023	6,238,516	29,323,705	13,627,665	166,445,035	77,232,028	2,434,114
Small and medium size business	92,593,883	1,328,655	1,502,845	62,843,846	4,096,423	10,383,512	1,402,796	81,558,077	11,035,806	733,913
Large corporate	360,719,134	23,077,093	4,249,735	177,709,342	11,583,834	63,320,425	66,991,795	346,932,224	13,786,910	1,684,875
Public sector	65,729,792	-	-	-	-	-	-	-	65,729,792	137,960
Financial assets at amortized cost	31,513,425	-	-	-	-	-	-	-	31,513,425	1,571,163
Other assets	14,468,437	-	-	-	-	-	-	-	14,468,437	-
<b>Total</b>	<b>992,313,083</b>	<b>43,666,163</b>	<b>8,041,291</b>	<b>336,259,211</b>	<b>21,918,773</b>	<b>103,027,642</b>	<b>82,022,256</b>	<b>594,935,336</b>	<b>397,377,747</b>	<b>8,950,053</b>
Letters of credit	10,499,619	674,560	-	-	-	-	-	674,560	9,825,059	5,305
Letters of guarantee	26,502,298	9,817,531	-	-	-	-	-	9,817,531	16,684,767	14,287
Other exposures	57,276,762	28,158,350	-	-	-	-	-	28,158,350	29,118,412	11,669

**December 31**  
**2020**

**December 31**  
**2019**

56

**E. Classification of debt securities based on risk rating:**

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

	2020	2019
<b>Credit Rating</b>	<b>U.S. \$</b>	<b>U.S. \$</b>
A- to AAA	14,066,645	14,499,494
B- to BBB+	14,981,759	15,442,768
Unrated	-	-
<b>Total</b>	<b>29,048,404</b>	<b>29,942,262</b>

## Macroeconomic Factors, Forward Looking Information and Multiple Scenarios

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

Following is the macroeconomic factors impact on the forward-looking information based on multiple scenarios as of January 31, 2020:

Economic Variables	ECL Scenario	Assigned Probabilities	Percentage Change in economic variables (%)
		(%)	2020
<u>GDP</u>	Base case	50	(0.48)
	Best case	-	-
	Worst case	50	(0.98)
<u>Unemployment Rates</u>	Base case	50	0.97
	Best case	-	-
	Worst case	50	7.31

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

Economic Variables	ECL Scenario	Assigned Probabilities	Percentage Change in economic variables (%)
		(%)	2019
<u>GDP</u>	Base case	80	0.40
	Best case	10	2.32
	Worst case	10	(1.52)
<u>Unemployment Rates</u>	Base case	80	0.97
	Best case	10	(5.37)
	Worst case	10	7.31

## 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:

	2020			2019		
	Increase in index	Effect on income statement	Effect on equity	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. \$	U.S. \$	%	U.S. \$	U.S. \$
Palestine Securities Exchange	10	-	356,462	10	-	393,984



#### 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.

The table below summarizes the allocation of assets and liabilities on the basis of the remaining contractual entitlement as at December 31, 2020 and 2019:

	December 31, 2020	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. \$	More than 3 years U.S. \$	Without maturity U.S. \$	Total U.S. \$
<b>Assets</b>									
Cash and balances with PMA	293,842,111	-	-	-	-	-	-	107,900,796	401,742,907
Balances at banks and financial institutions	47,631,282	22,167,989	-	-	18,273,667	-	-	-	88,072,938
Investment at Islamic banks	-	2,383,150	1,679,218	-	-	-	-	-	4,062,368
Direct Islamic financing	46,543,269	80,664,755	60,183,343	134,429,884	198,254,417	424,974,198	-	-	945,049,866
Financial assets at fair value through Equity	-	-	-	-	-	-	-	6,828,577	6,828,577
Financial assets at amortized cost	-	2,611,892	970,147	-	970,147	10,186,546	14,309,672	25,884,919	29,048,404
Investment properties	-	-	-	-	-	-	-	23,291,018	25,884,919
Property and equipment	-	-	-	-	-	-	-	704,734	23,291,018
Right of use assets	-	-	-	-	-	-	-	7,936,131	704,734
Projects in progress	-	-	-	-	-	-	-	3,647,117	7,936,131
Deferred tax assets	-	-	-	-	-	-	-	1,448,234	3,647,117
Intangible assets	-	-	-	-	-	-	-	-	1,448,234
Other assets	-	7,087,024	8,477,746	-	3,766,799	-	-	-	19,331,569
<b>Total assets</b>	<b>388,016,662</b>	<b>114,914,810</b>	<b>71,310,454</b>	<b>157,440,497</b>	<b>208,440,963</b>	<b>439,283,870</b>	<b>177,641,526</b>	<b>1,557,048,782</b>	
<b>Liabilities, unrestricted investment accounts and equity</b>									
<b>Liabilities</b>									
PMA deposits	20,725,190	49,415,325	-	-	-	-	-	-	70,140,515
Banks and financial institutions' deposits	1,346,266	25,881,680	-	-	-	-	-	-	27,227,946
Customers' deposits	325,966,065	-	-	-	-	25,738,658	-	-	325,966,065
Cash margin	-	-	7,374,263	18,384,756	-	-	-	6,730,683	73,742,621
Sundry provisions	-	-	-	-	-	-	-	-	6,730,683
Tax provisions	-	-	-	3,207,605	-	-	-	-	3,207,605
Deferred tax liabilities	-	-	-	-	-	-	-	2,645,835	2,645,835
Lease liabilities	-	-	-	-	-	-	-	8,252,944	8,252,944
Other liabilities	-	3,357,108	4,476,144	-	5,595,181	8,952,290	-	-	22,380,723
<b>Total liabilities</b>	<b>348,037,521</b>	<b>78,654,113</b>	<b>11,850,407</b>	<b>27,187,542</b>	<b>31,197,234</b>	<b>25,738,658</b>	<b>17,629,462</b>	<b>540,294,937</b>	
<b>Unrestricted investment accounts</b>	<b>146,058,273</b>	<b>200,266,997</b>	<b>340,051,800</b>	<b>207,114,192</b>	<b>3,018,863</b>	<b>-</b>	<b>-</b>	<b>896,510,115</b>	
<b>Equity</b>									
Paid-in share capital	-	-	-	-	-	-	-	88,469,252	88,469,252
Statutory reserve	-	-	-	-	-	-	-	7,339,348	7,339,348
General banking risk reserve	-	-	-	-	-	-	-	8,374,674	8,374,674
Pro-cyclicality reserve	-	-	-	-	-	-	-	4,113,369	4,113,369
Investment properties reserve	-	-	-	-	-	-	-	7,254,718	7,254,718
Cumulative change in fair value	-	-	-	-	-	-	-	(2,243,628)	(2,243,628)
Retained earnings	-	-	-	-	-	-	-	6,935,997	6,935,997
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,243,730</b>	
<b>Total liabilities, unrestricted investment accounts and equity</b>	<b>494,095,794</b>	<b>278,921,110</b>	<b>351,902,207</b>	<b>243,301,734</b>	<b>34,216,087</b>	<b>25,738,658</b>	<b>137,873,192</b>	<b>1,557,048,782</b>	
Maturity gap	(106,079,132)	(164,006,300)	(280,591,753)	(76,861,237)	174,224,876	413,545,212	39,768,334	-	-
Cumulative maturity gap	(106,079,132)	(270,085,432)	(650,677,185)	(627,538,422)	(453,313,546)	(39,768,334)	-	-	-

**December 31, 2019****Assets**

	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. \$	More than 3 years U.S. \$	Without maturity U.S. \$	Total U.S. \$
Cash and balances with PMA	242,383,437	-	-	-	-	-	89,004,825	331,388,262
Balances at banks and financial institutions	33,087,416	15,399,154	-	12,693,935	-	-	-	61,180,505
Investment at Islamic banks	-	4,980,710	3,509,514	-	-	-	-	8,490,224
Direct Islamic financing	37,317,803	64,675,979	48,254,242	107,784,178	158,957,880	340,738,928	-	757,729,010
Financial assets at fair value through Equity	-	-	-	-	-	-	7,198,032	7,198,032
Financial assets at amortized cost	-	2,692,262	1,000,000	1,000,000	10,500,000	14,750,000	-	29,942,262
Investment properties	-	-	-	-	-	-	25,677,869	25,677,869
Property and equipment	-	-	-	-	-	-	20,772,355	20,772,355
Right of use assets	-	-	-	-	-	-	8,287,217	8,287,217
Projects in progress	-	-	-	-	-	-	1,049,063	1,049,063
Deferred tax assets	-	-	-	-	-	-	2,774,291	2,774,291
Intangible assets	-	-	-	-	-	-	1,401,061	1,401,061
Other assets	-	5,600,432	6,699,432	3,738,365	-	-	-	16,038,229
<b>Total assets</b>	<b>312,788,656</b>	<b>93,348,537</b>	<b>59,463,188</b>	<b>125,216,478</b>	<b>169,467,880</b>	<b>355,488,928</b>	<b>156,164,713</b>	<b>1,271,928,380</b>

**Liabilities, unrestricted investment accounts and equity****Liabilities**

PMA deposits	17,068,287	40,696,125	-	-	-	-	-	57,764,412
Banks and financial institutions' deposits	1,780,490	34,229,553	-	-	-	-	-	36,010,043
Customers' deposits	251,112,205	-	-	-	-	-	-	251,112,205
Cash margin	-	-	5,792,434	14,441,103	17,473,255	20,217,544	-	57,924,336
Sundry provisions	-	-	-	-	-	-	5,806,291	5,806,291
Tax provisions	-	-	-	1,359,203	-	-	-	1,359,203
Deferred tax liabilities	-	-	-	-	-	-	2,632,994	2,632,994
Lease liabilities	-	-	-	-	-	-	8,447,555	8,447,555
Other liabilities	-	2,967,432	3,956,575	4,945,720	7,913,152	-	-	19,782,879
<b>Total liabilities</b>	<b>269,960,982</b>	<b>77,893,110</b>	<b>9,749,009</b>	<b>20,746,026</b>	<b>25,386,407</b>	<b>20,217,544</b>	<b>16,886,840</b>	<b>440,839,918</b>
<b>Unrestricted investment accounts</b>	<b>116,409,463</b>	<b>159,614,196</b>	<b>271,023,659</b>	<b>165,071,457</b>	<b>2,406,047</b>	<b>-</b>	<b>-</b>	<b>714,524,822</b>

**Equity**

Paid-in share capital	-	-	-	-	-	-	84,919,252	84,919,252
Statutory reserve	-	-	-	-	-	-	6,537,914	6,537,914
General banking risk reserve	-	-	-	-	-	-	7,812,746	7,812,746
Pro-cyclicality reserve	-	-	-	-	-	-	4,113,369	4,113,369
Investment properties reserve	-	-	-	-	-	-	7,219,5409	7,219,5409
Cumulative change in fair value	-	-	-	-	-	-	(1,874,173)	(1,874,173)
Retained earnings	-	-	-	-	-	-	7,835,023	7,835,023
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116,563,640</b>	<b>116,563,640</b>

**Total liabilities, unrestricted investment accounts and equity**

Maturity gap	386,370,445	237,507,306	280,772,668	185,817,483	27,792,454	20,217,544	133,450,480	1,271,928,380
Cumulative maturity gap	(73,581,789)	(144,158,769)	(221,309,480)	(60,601,005)	141,665,426	335,271,384	22,714,233	-
	(73,581,789)	(217,740,558)	(439,050,038)	(499,651,043)	(357,985,617)	(22,714,233)	-	-



The following table shows the balances of the Bank's undiscounted financial liabilities as at 31 December 2020 and 2019 by contractual maturity period:

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Non-interest bearing	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>December 31, 2020</b>								
<b>Liabilities</b>								
PMA deposits	21,761,450	51,886,091	-	-	-	-	-	73,647,54
Banks' and financial institutions' deposits	1,413,579	27,175,764	-	-	-	-	-	28,589,343
Customers' deposits	342,264,368	-	-	-	-	-	-	342,264,368
Cash margins	-	-	7,742,976	19,303,994	23,357,191	27,025,591	-	77,429,752
Sundry Provisions	-	-	-	-	-	-	7,067,217	7,067,217
Tax provisions	-	-	-	3,892,011	-	-	-	3,892,011
Deferred tax liabilities	-	-	-	-	-	-	2,778,127	2,778,127
Lease liabilities	-	-	-	-	-	-	8,665,591	8,665,591
Other liabilities	-	3,524,963	4,699,951	5,874,940	9,399,905	-	-	23,499,759
<b>Total Liabilities</b>	<b>365,439,397</b>	<b>82,586,818</b>	<b>12,442,927</b>	<b>29,070,945</b>	<b>32,757,096</b>	<b>27,025,591</b>	<b>18,510,935</b>	<b>567,833,709</b>
Rights of unrestricted investment account holders	153,361,187	210,280,347	357,054,390	217,469,902	3,169,769	-	-	941,335,622
<b>Total liabilities and Rights of unrestricted investment account holders</b>	<b>518,800,584</b>	<b>292,867,165</b>	<b>369,497,317</b>	<b>246,540,847</b>	<b>35,926,892</b>	<b>27,025,591</b>	<b>18,510,935</b>	<b>1,509,169,331</b>
<b>Total assets based on expected maturity</b>	<b>388,016,662</b>	<b>114,914,810</b>	<b>71,310,454</b>	<b>158,404,963</b>	<b>208,440,963</b>	<b>439,283,870</b>	<b>177,176,711</b>	<b>1,557,547,854</b>
	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Non-interest bearing	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>December 31, 2019</b>								
<b>Liabilities</b>								
PMA deposits	17,068,287	40,696,125	-	-	-	-	-	57,764,412
Banks' and financial institutions' deposits	1,780,490	34,229,553	-	-	-	-	-	36,010,043
Customers' deposits	251,112,205	-	-	-	-	-	-	251,112,205
Cash margins	-	-	5,792,434	14,441,103	17,473,255	20,217,544	-	57,924,336
Sundry Provisions	-	-	-	-	-	-	5,806,291	5,806,291
Tax provisions	-	-	-	1,359,203	-	-	-	1,359,203
Deferred tax liabilities	-	-	-	-	-	-	2,632,994	2,632,994
Lease liabilities	-	-	-	-	-	-	8,447,555	8,447,555
Other liabilities	-	2,967,432	3,956,575	4,945,720	7,913,152	-	-	19,782,879
<b>Total Liabilities</b>	<b>269,960,982</b>	<b>77,893,110</b>	<b>9,749,009</b>	<b>20,746,026</b>	<b>25,386,407</b>	<b>20,217,544</b>	<b>16,886,840</b>	<b>440,839,918</b>
Rights of unrestricted investment account holders	116,409,463	159,614,196	271,023,659	165,071,457	2,406,047	-	-	714,524,822
<b>Total liabilities and Rights of unrestricted investment account holders</b>	<b>386,370,445</b>	<b>237,507,306</b>	<b>280,772,668</b>	<b>185,517,483</b>	<b>27,792,454</b>	<b>20,217,544</b>	<b>16,886,840</b>	<b>1,155,364,740</b>
<b>Total assets based on expected maturity</b>	<b>312,788,656</b>	<b>93,348,537</b>	<b>59,463,188</b>	<b>125,216,478</b>	<b>169,457,880</b>	<b>355,488,928</b>	<b>156,164,713</b>	<b>1,271,928,380</b>

### **Liquidity Coverage Ratio (LCR)**

During 2018, PMA issued instructions No. (4/2018) in regard of Liquidity Coverage Ratio (LCR), which is considered one of the quantitative corrective tools issued by Basel Committee. According to the issued instructions LCR should not be lower than 100% in any case.

The table below shows the calculation of the mentioned ratio as of December 31, 2020:

	<b>Amount before discount rates / Average flows</b>	<b>Amount after discount rates / Average flows</b>
	<b>U.S. \$</b>	<b>U.S. \$</b>
<b>High quality liquid assets</b>	<b>490,154,942</b>	<b>460,497,448</b>
<b>Retail deposits including small and medium corporates:</b>		
A- Less stable deposits	1,072,551,823	77,444,883
B- Deposits with a maturity period more than 30 days	466,433	-
<b>Other deposits and other unguaranteed facilities for companies:</b>		
A- Operating deposits	205,649,214	51,412,303
<b>Guaranteed financing and deposits</b>	<b>205,649,214</b>	<b>51,412,303</b>
Governmental Deposits	12,478,087	4,991,235
PMA Deposits	70,140,515	28,056,206
Bank Deposits	27,227,945	27,227,945
Other financial institutions deposits	5,073,244	5,073,244
<b>Guaranteed financing and deposits</b>	<b>1,393,587,261</b>	<b>194,205,816</b>
<b>Non-cancelled credit lines and required liquidity within 30 days</b>	<b>33,819,741</b>	<b>26,970,959</b>
<b>Long Term</b>	<b>191,716,240</b>	<b>10,008,560</b>
<b>Gross cash outflows</b>	<b>1,619,123,242</b>	<b>231,185,335</b>
<b>Guaranteed Islamic financing</b>	<b>51,480,587</b>	<b>25,740,294</b>
<b>Gross cash inflow</b>	<b>51,480,587</b>	<b>25,740,294</b>
<b>Net cash outflow after adjustments</b>		<b>205,445,041</b>
<b>Total high-quality liquid assets after adjustments</b>		<b>460,497,448</b>
<b>Net cash outflow after adjustment</b>		<b>205,445,041</b>
<b>Liquidity coverage ratio (%)</b>		<b>%224</b>

The table below shows the calculation of the mentioned ratio as of December 31, 2019:

	Amount before discount rates / Average flows	Amount after discount rates / Average flows
	U.S. \$	U.S. \$
<b>High quality liquid assets</b>	<b>400,961,649</b>	<b>379,069,522</b>
<b>Retail deposits including small and medium corporates:</b>		
A- Less stable deposits	953,555,752	64,838,366
<b>Other deposits and other unguaranteed facilities for companies:</b>		
A- Operating deposits	52,386,285	13,096,571
B- Woperating deposits	111,395,386	67,808,948
<b>Guaranteed financing and deposits</b>	<b>163,781,671</b>	<b>80,905,519</b>
<b>Non-cancelled credit lines and required liquidity within 30 days</b>	<b>157,201,191</b>	<b>37,927,071</b>
<b>Gross cash outflows</b>	<b>1,274,538,614</b>	<b>183,670,956</b>
<b>Guaranteed Islamic financing</b>	<b>60,030,682</b>	<b>30,015,341</b>
<b>Gross cash inflow</b>	<b>60,030,682</b>	<b>30,015,341</b>
<b>Net cash outflow after adjustments</b>		<b>153,655,615</b>
<b>Total high-quality liquid assets after adjustments</b>		<b>379,069,522</b>
<b>Net cash outflow after adjustment</b>		<b>153,655,615</b>
<b>Liquidity coverage ratio (%)</b>		<b>247%</b>

**Net Stable Funding Ratio (NSFR)**

During 2018, PMA issued instructions No. (5/2018) in regard of applying Net Stable Funding Ratio (NSFR), The table below shows the calculation of the mentioned ratio as of December 31, 2020:

Description	2020	2019
	U.S. \$	U.S. \$
Regulatory capital	115,319,262	107,200,907
Less stable retail deposits	977,642,911	738,465,913
Guaranteed and unguaranteed financing	105,361,229	79,575,200
<b>Gross funding available</b>	<b>1,198,323,402</b>	<b>925,242,020</b>
Level 1 unrestricted high liquidity assets	53,388	125,476
Level 2 unrestricted high liquidity assets	6,006,275	4,559,918
Level 3 unrestricted high liquidity assets	23,651,219	15,332,209
Islamic Financing	603,652,602	554,560,825
Home Loans	136,646,352	-
Deposits in other financial institutions	16,794,947	-
Financial assets issued or guaranteed by banks and financial institutions	2,945,006	3,258,189
Unquoted financial assets	3,883,572	10,679,032
Non-performing Islamic Financing	939,949	1,067,231
Other assets	72,719,905	80,375,000
Non-cancellable credit facilities and line of credits	5,643,112	2,698,464
Future obligations	340,857	1,857,396
	2,072,928	-
	27,018,932	-
<b>Gross funding required</b>	<b>902,369,044</b>	<b>674,513,740</b>
<b>Net Stable Funding Ratio (NSFR)</b>	<b>%133</b>	<b>137%</b>

#### 48. Fair value measurement

The fair value measurement hierarchy of the Bank's assets and liabilities as at December 31, 2020:

		Fair value measurement using			
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level3)
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Assets measured at fair value:</b>					
Financial asset at fair value through equity (Note 7):					
Quoted	December 31, 2020	3,564,619	3,564,619	-	-
Unquoted	December 31, 2020	3,263,958	-	-	3,263,958
Financial assets at amortized cost disclosed (Note 8)	December 31, 2020	29,048,404	29,048,404	-	-
Investment properties (Note 9)	December 31, 2020	25,884,919	-	-	25,884,919

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

		Fair value measurement using			
	Date of measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level3)
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Assets measured at fair value:</b>					
Financial asset at fair value through equity (Note 7):					
Quoted	December 31, 2019	3,939,842	3,939,842	-	-
Unquoted	December 31, 2019	3,258,190	-	-	3,258,190
Financial assets at amortized cost disclosed (Note 8)	December 31, 2019	29,942,262	29,942,262	-	-
Investment properties (Note 9)	December 31, 2019	25,677,869	-	-	25,677,869

There have been no transfers between Level 1, Level 2 and Level 3 during the year.

- Sensitivity of data not observable (Stage 3):

External certified appraisers are required to evaluate material assets such as investment properties and invest in unlisted financial assets. After discussion with these external appraisers, the Bank selects methods and inputs that will be used for valuation in each case.

#### 49. 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, 2020 and 2019:

	Carrying amount		Fair value	
	2020	2019	2020	2019
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Financial assets</b>				
Cash and balances with PMA	401,742,907	331,388,262	401,742,907	331,388,262
Balances at banks and financial institutions	88,072,938	61,180,505	88,072,938	61,180,505
Investment at Islamic banks	4,062,368	8,490,224	4,062,368	8,490,224
Direct Islamic financing	945,049,866	757,729,010	945,049,866	757,729,010
Financial assets at fair value through equity:				
Quoted shares	3,564,619	3,939,842	3,564,619	3,939,842
Unquoted shares	3,263,958	3,258,190	3,263,958	3,258,190
Financial assets at amortized cost	29,048,404	29,942,262	29,048,404	29,942,262
Other assets	17,472,928	13,854,601	17,472,928	13,854,601
<b>Total assets</b>	<b>1,492,277,988</b>	<b>1,209,782,896</b>	<b>1,492,277,988</b>	<b>1,209,782,896</b>
<b>Financial liabilities</b>				
Sustainability loan	3,186,310	-	3,186,310	-
PMA deposits	66,954,205	57,764,412	66,954,205	57,764,412
Banks and financial institutions' deposits	27,227,946	36,010,043	27,227,946	36,010,043
Customers' deposits	325,966,065	251,112,205	325,966,065	251,112,205
Cash margin accounts	73,742,621	57,924,336	73,742,621	57,924,336
Other liabilities	22,380,723	19,782,879	22,380,723	19,782,879
<b>Total liabilities</b>	<b>519,457,870</b>	<b>422,593,875</b>	<b>519,457,870</b>	<b>422,593,875</b>
<b>Unrestricted investment accounts</b>	<b>896,510,115</b>	<b>714,524,822</b>	<b>896,510,115</b>	<b>714,524,822</b>

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

Fair values of cash and balances with PMA, balances at banks and financial institutions, investments at Islamic banks, financial assets at amortized cost, other financial assets, PMA deposits, banks and financial institutions' deposits, customers' deposits, cash margin and other financial liabilities approximate their carrying amounts.

The fair value of the quoted financial assets at fair value through equity that have a market price are set in accordance with the prices traded on the date of the financial statements.

Financial assets at fair value through equity that do not have a market price were stated at cost less impairment, as the fair value of such assets cannot be reliably measured. In management's opinion, the fair value of the unquoted financial assets at fair value through equity does not significantly differ from their fair value as at December 31, 2020.

The fair value of 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, 2020.

The fair value of financial assets at amortized cost was estimated using the expected future cash flows using the same discount rate for other banks with similar conditions and risks.

## 50. 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 and investments.

Following the Bank's business segments:

	Retail	Corporate	Treasury	Others	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Gross revenue	24,562,889	27,698,576	6,779,609	525,550	59,566,624
ECL allowance on Islamic financing	(1,902,197)	(2,117,184)	-	-	(4,019,381)
Segment results					55,547,243
Unallocated expenses					(44,582,907)
Profit before taxes					10,964,336
Taxes expense					(2,950,000)
Profit for the year					8,014,336
<b>Other information</b>					
Total segment assets	242,991,173	514,737,837	438,199,285	361,120,487	1,557,048,782
Total segment liabilities and unrestricted investment accounts	854,434,719	169,128,250	93,774,455	319,467,628	1,436,805,052
Capital expenditures					6,122,333
Depreciation and amortization					4,420,371
	Retail	Corporate	Treasury	Others	2019
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Gross revenue	22,754,106	25,325,796	5,854,704	971,974	54,906,580
ECL allowance on Islamic financing	(669,337)	(744,986)	-	-	(1,414,323)
Segment results					53,492,257
Unallocated expenses					(41,537,975)
Profit before taxes					11,954,282
Taxes expense					(2,944,000)
Profit for the year					9,010,282
<b>Other information</b>					
Total segment assets	242,991,173	514,737,837	438,199,285	76,000,085	1,271,928,380
Total segment liabilities and unrestricted investment accounts	854,434,719	169,128,250	93,774,455	37,756,988	1,155,094,412
Capital expenditures					11,419,037
Depreciation and amortization					4,060,688



**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 revenue, assets and capital expenditures according to geographical sector:

	Local		Foreign		Total	
	2020	2019	2020	2019	2020	2019
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Total revenues	56,980,609	52,421,802	2,586,015	2,484,778	59,566,624	54,906,580
Total assets	1,441,479,295	1,177,551,754	115,569,487	94,376,626	1,557,048,782	1,271,928,380
Capital expenditures	6,122,333	11,419,037	-	-	6,122,333	11,419,037

**51. 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 equity 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. \$ 9,919,252 during 2019, and U.S. \$ 3,550,000 during 2020.

The capital adequacy ratio is computed in accordance with PMA regulations derived from Basel Committee regulations computed as follows:

	2020			2019		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. \$	%	%	U.S. \$	%	%
Regulatory capital	114,527,656	7.36	13.43	104,359,798	8.20	13.06
Basic capital	100,601,104	6.64	11.79	91,120,950	7.16	11.40

**52. Legal cases against the Bank**

In the normal course of business, the number of litigations filed against the Bank was (27) and (26) as at December 31, 2020 and 2019, respectively. The litigations filed against the Bank amounted to U.S. \$ 816,238 and U.S. \$ 116,095 as at December 31, 2020 and 2019, respectively. The Bank's management and lawyer believe that the provision for legal cases is sufficient against these litigations.

**53. 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.

## **54. The impact of coronavirus (Covid 19) on the expected credit loss calculation**

### **Calculation of the expected credit losses**

Determining the expected credit loss provision for credit financing requires the Bank's management to issue important judgments and judgments to estimate the amounts and timing of future cash flows, in addition to estimating any substantial increase in the credit risk of financial assets after their initial recognition, in addition to taking into consideration future measurement information for expected credit losses.

In accordance with International Financial Reporting Standard (9), credit financing must be transferred from stage (1) to stage (2) if, and only if, there has been a material increase in credit risk since inception. A significant increase in credit risk occurs when there is a significant increase in the risk of default.

The Bank assessed borrowers for other indications of unwillingness to pay, considering the underlying cause of any financial difficulty and whether it is likely to be temporary because of the spread of Covid-19 or in the long term.

During the year, the Bank also updated the macroeconomic factors according to the latest issue from the International Monetary Fund and the Palestinian Central Bureau of Statistics, in addition to changing the weighted possibilities for macroeconomic scenarios by calculating larger weights for the worst-case scenario, which negatively affected the calculation of the ECL provision.

### **Relevant Palestine Monetary Authority instructions**

As a result of the spread of Coronavirus (Covid-19), on March 15, 2020, PMA issued Instructions No. (4/2020) related to PMA measures to mitigate the effects of the health crisis, as it included a set of decisions, the most prominent of which was instructing banks to postpone customer payments for four months and the tourism sector for six months extendable, in which banks are prohibited from collecting any additional fees, commissions or returns on the deferred installments. Based on these instructions, the Bank has postponed the financing installments to the customers. Also, on June 30, 2020, PMA issued Instructions No. (23/2020) that required Islamic banks to grant customers whose installments were postponed a grace period to pay their deferred installments until December 31, 2021. This was accompanied by some measures taken by the Palestinian government and PMA (which had an impact on the banking sector and the Bank's business), such as not including customers who has declined checks for financial reasons in the black list and not charging them with the any commissions.

In July 22, 2020, PMA issued Instructions No. (27/2020) regarding mitigating the effects of the financial crisis and the Coronavirus crisis, according to which the Bank restructured or rescheduled funds or granted the customer a temporary securitization ceiling in the amount of installments owed on him or restructured the lease-to-own In addition to granting the customer, upon his request, a temporary securitization ceiling in the value of his obligations during the period from July 1, 2020 until January 1, 2021.

In response to the instructions of PMA No. (23/2020), the Bank began during the year 2020 a program to reduce payments to support its affected customers by postponing the installments due for a period of four months to six months, so that they were given a grace period to pay their deferred installments. The Bank has postponed / restructured the financing installments of clients of the affected economic sectors from companies and individuals without adding any returns in accordance with the instructions of PMA No. (23/2020).

These paid exemptions are short-term liquidity for the purpose of addressing the borrower's cash flow issues. The Bank believes that extending payment does not automatically lead to a material increase in credit risk as the impact on the customer is expected to be in the short term. For all other customers, the Bank continues to consider the severity and extent of the potential impact of COVID-19 on the economic sector, future outlook, cash flows, financial strength, mobility, and change in the risk profile along with the previous record in identifying a significant increase in credit risk.

#### **Incentivize deposits from Palestine Monetary Authority**

During the year, the Bank received an incentivize deposit from PMA amounting to U.S. \$ 20 million at a yield less than the market return with a maturity of three years, with the aim of mitigating the economic effects of the Coronavirus (COVID 19) crisis on the Bank's activities and the subsequent losses due to the delay in customer payments during the year 2020.

#### **Istidama Sustainability Program from the Palestine Monetary Authority**

In accordance with the instructions of PMA No. (22/2020) and with the aim of mitigating the economic effects of the Coronavirus crisis (COVID 19) on economic activities and projects, especially small and medium enterprises, sustainable financing has been granted by PMA so that the Bank is committed to collecting a diminishing return of up to 3% of Borrowers.

#### **The Accounting Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)**

On May 21, 2020, the Accounting Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued a statement "of the accounting effects and consequences of the Corona epidemic" to provide clarifications and explanations regarding the accounting treatment in accordance with the financial accounting standards issued by AAOIFI. In line with the requirements of the AAOIFI, the Bank will amortize the remaining amount of the deferred profits related to the deferred instalments over the remaining period of the financing facilities as AAOIFI does not allow neither recording financing facilities on net present value (NPV) nor applying the concept of opportunity cost in accounting.

#### **55. Subsequent events**

Subsequent to the financial statements date, on February 25, 2021 the Board of Directors in its meeting decided to recommend to the general assembly to increase the paid-in share capital of the Bank by U.S. \$ 3,250,000 with U.S. \$ 1 par value. The Board of Director also decided to recommend to the General Assembly to distribute 2.90% cash dividends from the par value of the Bank's shares.

