



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
تنمية وأمان

Annual Report 2021



The Twenty-seventh Annual Report

Results and Achievements

in 2021

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

Since the beginning of its operations in March 1995, PIB has grown exponentially over the years with its commercial banking activities leading the way. Maintaining a large footprint with multiple branches and offices spanning over 11 different cities in Palestine and notably a fully-fledged foreign branch in Bahrain and a representative office in London. PIB's clients consist of an eclectic mix of retail, corporate, and financial institutions which have helped PIB maintain a diversified service offering of a wide array of core banking activities as well as investment and commercial products, and services.

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

Members of the Board of Directors as of December 31, 2021



Mr. Abed Dayeh

Chairman



Mr. Khalil Nasr

Vice-Chairman



Dr. Adnan Steitieh

Non-executive Director



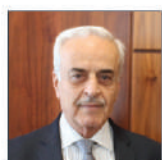
Mr. Yousef Bazian

Non-executive Director



Mr. Sami Al Sayid

Non-executive Director



Mr. Jamil Al-Muti

Non-executive Director



Yazan Abdul Aziz

Non-executive Director



Mr. Walid Al-Najjar

Non-executive Director



Dr. Tareq Al-Haj

Non-executive Director



Mr. Hanna (Johny) Abuaitah

Non-executive Director



Mr. Basem Abed Al Halim

Non-executive Director

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

- **Legal**

Mr. Hussam Al Atira

Mr. Malik Al Auri

Mr. Sharhabeel Al Zaim

- **External Auditors**

Ernst & Young- Palestine



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
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The Bank's Message

- Vision and Tasks
- Basic Values
- Future Expectations



Vision and Tasks

- We always strive to be the leading bank in Palestine, by providing the finest financial services and outstanding and superior banking products to our clients. Those services and products are provided by a highly qualified staff who do their work in a stimulating environment, supported by modern technology, with products and services which are carefully selected, through the application of the highest professional and ethical standards, by aiming to achieve financial results suitable to our ranking in the Palestinian banking sector.
- To contribute to the growth and development of the Palestinian economy, with the utmost responsibility and commitment.

Core Values

- Our basic values are founded on honesty and truthfulness and the permanent pursuit of excellence and fulfilling of our promises. In addition to being committed to the foundations of corporate governance in all our business, and the continuing challenge to find the best ways to satisfy our clients, we are always committed to social responsibilities everywhere.

Future Expectations

- Our future expectations are to maintain the achievements and sustainability of growth and development, and to continue to meet efficiently and effectively the needs and desires of our clients. In addition, to help their assets grow with the utmost care and responsibility by continuing to introduce and develop new products within the Palestinian banking market. We will continue to reinforce our financial position through the application of risk management, human resource development, and effective use of modern technology for the continuity of excellence in performance, and increase in efficiency in dealing with our clients with the utmost transparency.



بنك الاستثمار الفلسطيني
PALESTINE INVESTMENT BANK
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PIB's Products and Services

- Financial Services
- Commercial Services
- Treasury and Investment Services



Financial Services

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

Commercial Services

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

Treasury and Investment Services

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

Chairman's Message

Dear Shareholders,

On behalf of PIB's Board of Directors, it gives my colleagues and I great pleasure to welcome you all to our annual ordinary general assembly, during which the Twenty-Seventh Annual Report of PIB Company for the year ended 31/12/2021. The report included the Financial Position and Comprehensive Income Statement of the Bank that was prepared subject to the applicable standards and disclosure requirements.

The global economic outlook has become increasingly divergent and most advanced economies look forward to the return of normal business activity. These are positive indicators compared to 2020, which reflected a sharp contraction of the global economic output. By having normal economic activity return, the growth rate was satisfactory given the size of the economy.

the global economy is still surrounded by great uncertainty, however, special measures have been taken by the biggest central banks assisting to lay concrete foundations on which the global economy is in need during phases of crisis and challenges.

The foremost challenge that faces the global economy in 2022 is the higher energy prices which could impact the economic growth and the subsequent rises in food and transportation prices, high inflation rates and an increase in the unemployment rate would thus increase debts.

While in Palestine, the recovery indicators started coming up within the second half of the year 2021 where the economy recorded an increase in GDP of 6.7% compared to 2020 despite the steep decline in foreign aid provided to the State of Palestine.

During the year 2021, the Bank was able to achieve remarkable growth rates in key financial indicators for the Bank during 2021 compared to the previous year 2020. The Bank achieved an increase in the aggregate balance sheet by 15%. The clients' deposits have grown by 10% and the credit facilities portfolio has also grown by 8.35%. This achievement has enhanced and fostered the competitive position of the Bank and expanded its customer base and banking operations. On the income statement level, the Bank's management was able to achieve a growth rate of almost 7% in Net Revenue of Interests and Commissions in addition to a growth rate of 3.5% in Total Income and a growth rate in Profit before tax by 2.94%. The Bank has followed and adopted prudent policies in making allowances for credit facilities as a result of the spill-over effects and consequences of the Corona Pandemic into different economic aspects in Palestine.

Internally, the Bank continued applying its plan aiming at promoting internal efficiency, leveling up the quality of banking services, and fostering internal control. Based on that, the Bank has installed a modern ATMs Network on every site that provides, in the present and future, new banking services. The Bank

has also launched a service call center to enhance and facilitate contact with customers. On the digital development level, the Bank has launched the customers' credit evaluation system, an automated system for comprehensive control of operating risks as well as investment and development in security and information protection systems that made the Bank among the most secure institutions.

In 2021, the Bank's management opened a representative office in London, through which the Bank has gained an advanced position and existence within the global markets.

On the Corporate Social Responsibility Level, the Bank has effectively contributed, during 2021, to social support oriented towards sectors in need of support and took the initiative to support the neediest groups according to well-designed studies and plans to maximize the positive impact within the Palestinian community.

We have started the new year of 2022 with substantial momentum with new changes and variables. The Bank will pursue and move forward based on its strategic plan as approved by the Board of Directors represented in developing the Bank's business activities, enhancing proceeds from various banking services as well as developing organizational and strategic plans designated for digital development, including the provision of appropriate digital solutions to customers that could contribute to enhancing the Bank's status and expanding its customers' base.

Finally, on behalf of my colleagues and myself, I extend my sincere thanks and appreciation to all shareholders of the Bank for their continued support and would like to extend also my regards to the entire staff of the Bank for their contribution and affiliation, ensuring our constant quest to meet their needs and desires with the highest standards of quality. I would also extend my sincere regards to the Palestinian monitoring parties, on top of them the Palestinian Monetary Authority, for their exerted efforts. I would further thank and appreciate the executives of the Bank for their sincere and dedicated efforts in performing their tasks to achieve the Bank's objectives, wishing everyone lasting and durable success.

Abed Dayeh
Chairman of the Board

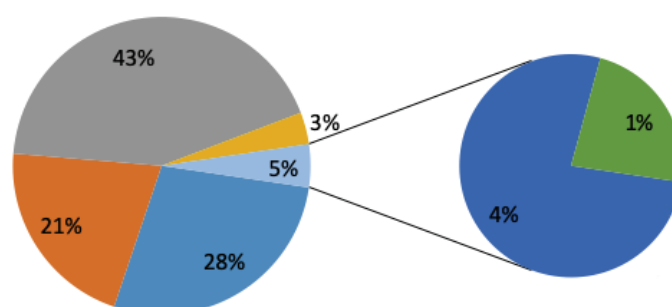
Analysis of the Financial Position and Results of Operations in 2021

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

Major Segments of the Bank's Financial Position in 2021				
	US\$ Million		%	
Assets	2021	2020	2021	2020
Cash and Balances with the Monetary Authority	205.72	156.34	28	24
Balances with Banks and Banking institutions	155.98	119.08	21	19
Direct Credit Facilities	316.71	294.91	43	46
Total Financial Assets	25.51	31.39	3	5
Intangible and Fixed Assets	26.60	27.25	4	4
Deferred Tax Assets	7.99	12.22	1	2
Total Assets	738.50	641.18	100 %	100 %

Analysis of the Financial Position and Results of Operations

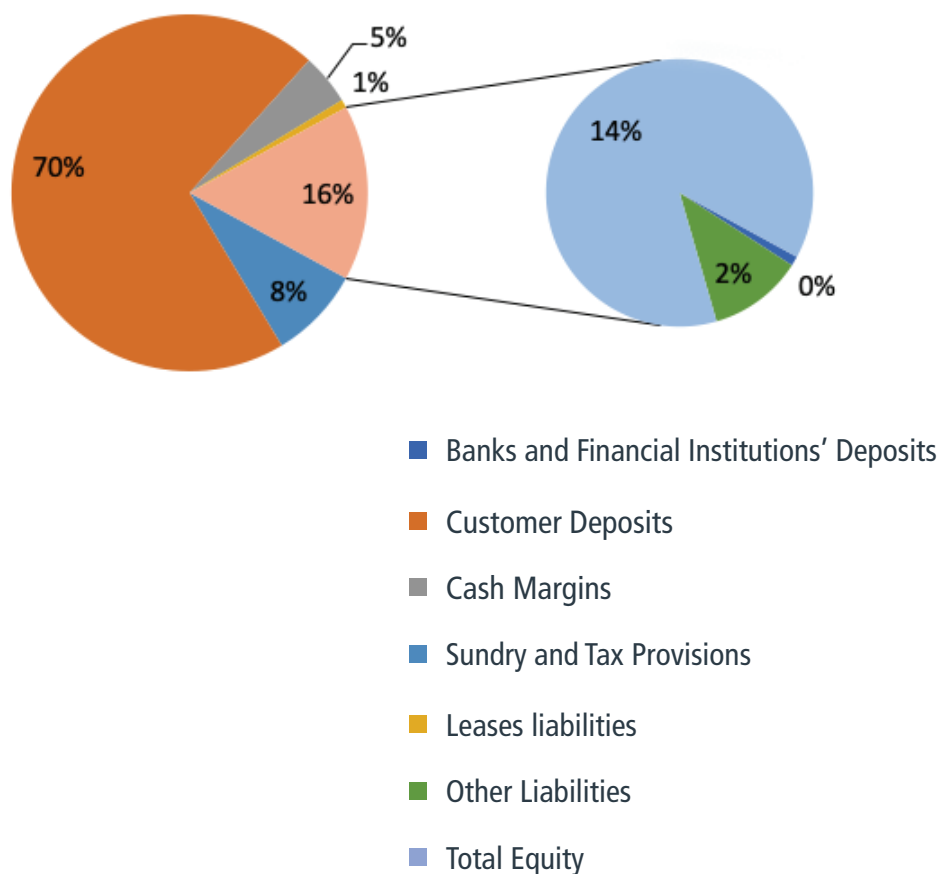
2021



- Cash and Balances with the Monetary Authority
- Balances at Banks and Financial Institutions
- Direct Credit Facilities
- Total Financial Assets
- Intangible and Fixed Assets
- Deferred Tax Assets

Liabilities and Equity				
	US\$ Million		%	
	2021	2020	2021	2020
Banks and Financial Institutions' Deposits	62.12	23.34	8	4
Customer Deposits	519.41	475.20	70	75
Cash Margins	34.13	27.46	5	4
Sundry and Tax Provisions	5.43	5.11	1	1
Leases liabilities	1.38	1.76	0	0
Other Liabilities	13.40	9.47	2	1
Total Equity	102.63	98.85	14	15
Total Liabilities and Equity	738.50	641.18	100	100

Liabilities and Equity
2021



Direct Credit Facilities

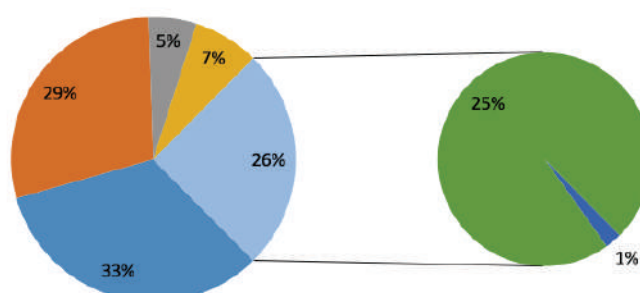
Over the year of 2021, the Bank's management continued working on the development of the Bank's credit facilities portfolio by following a balanced and cautious credit policy in light of the situation in Palestine and changes in interest rates and expected returns on credit facilities. Under the supervision of the Executive Committee, the Bank strives to maintain the quality of the credit portfolio after studying the market and credit risk as well as working on collecting outstanding loans.

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

Direct Credit Facilities				
The Statement	US\$ Million		%	
	2021	2020	2021	2020
Retail Loans	107.51	99.30	33.03	32.96
Corporate Loans	94.62	101.28	28.88	33.62
Debtor	17.75	20.08	5.44	6.66
Retail Current Overdrafts	24.47	18.68	7.50	6.20
Retail Credit Cards	2.10	2.18	0.64	0.72
Government and Public Sector	80.00	59.77	24.51	19.84
Total	326.43	301.28	100	100

Direct Credit Facilities

2021



■ Retail Loans

■ Corporate Loans

■ Debtor

■ Retail Current Overdrafts

■ Retail Credit Cards

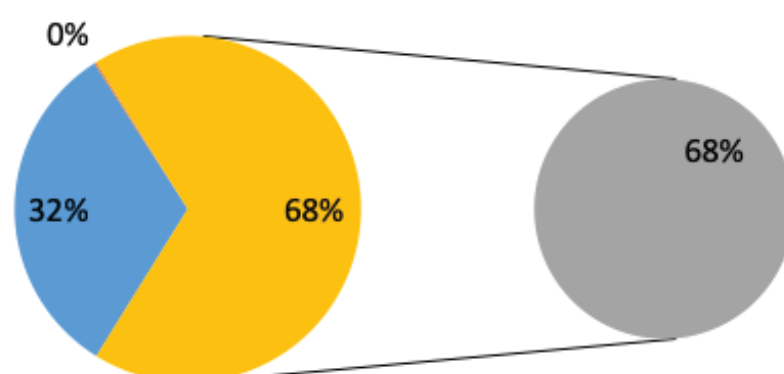
■ Government and Public Sector

Portfolio of Financial Assets

Balance of the investment portfolio was at \$25.51 million in 2021, compared to \$31.39 million in the year 2020, due to the decrease of financial assets.

Diversified Financial Assets				
	US\$ Million		%	
	2021	2020	2021	2020
Financial Assets at Fair Value through Profit or Loss	8.19	17.414	32.10	55.48
Financial Assets at Fair Value through Comprehensive Income	0.05	0.04	0.20	0.14
Financial Assets at Amortized Cost	17.27	13.93	67.70	44.38
Total	25.51	31.39	100	100

Financial Assets
2021



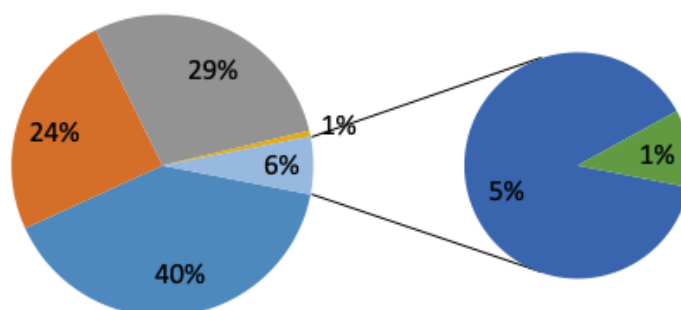
- Financial Assets at Fair Value through Profit or Loss
- Financial Assets at Fair Value through Comprehensive Income
- Financial Assets at Amortized Cost

Customer's Deposits

Deposits grew in 2021 by 10.1% compared to the previous year.

Components of Customer Deposits				
	US\$ Million		%	
	2021	2020	2021	2020
Current and Demand Accounts	221.82	189.16	40.05	40.07
Term Deposits	135.92	153.41	23.88	24.55
Savings Deposits	158.13	129.50	27.66	28.57
Overdraft	3.53	3.13	1.34	0.64
Cash Margins against Direct Credit Facilities	30.35	23.78	6.02	5.48
Cash Margins against Indirect Credit Facilities	3.75	3.68	1.07	0.68
Total Deposits	553.55	502.66	100	100

Customer's Deposits Structure
2021



- Current and demand accounts
- Term Deposits
- Saving deposits
- Overdraft
- Cash Margins against Direct Credit Facilities
- Cash Margins against Indirect Credit Facilities

Capital Adequacy:

The capital adequacy ratio equated to 24.31% in 2021 versus 22.64% in 2020. It is one of the highest ratios achieved in the banking sector in Palestine, and higher than the ratios assessed by the Supervisory Monetary Authority of 12%. It also higher than the Basel Committee on rates (Bank for International Settlements) of 8%. The total core capital ratio to risk weighted assets was 23.07% in 2021, compared with 21.51% in 2020.

Bank's Operations Results

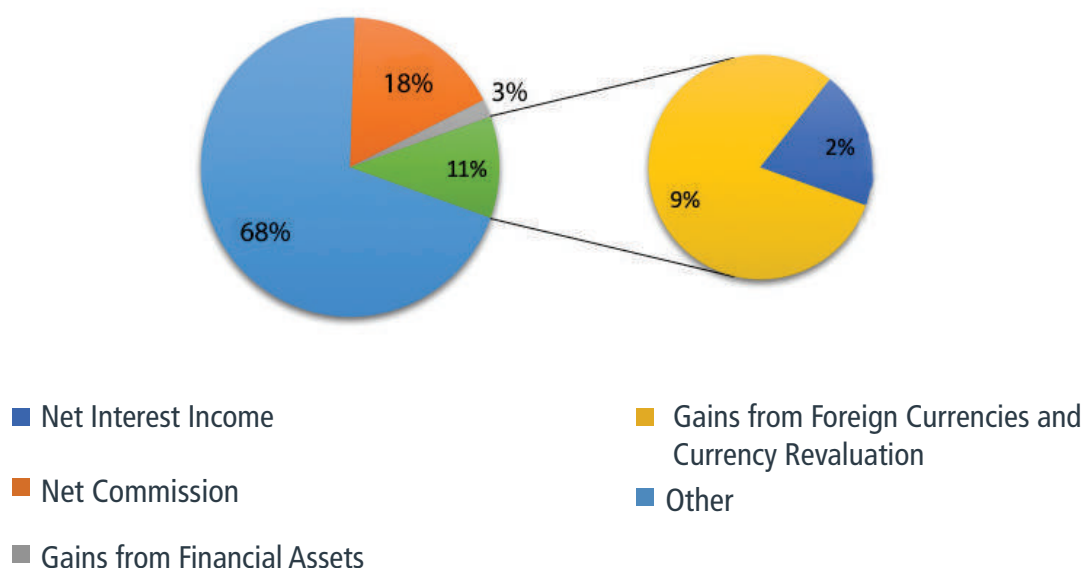
Net profit before tax reached \$5.17 million in 2021 compared with \$5.03 million in 2020, a total increase of 2.94%, and after deduction of tax, net profit reached \$3.765 million in 2021 compared with \$3.675 million in 2020, a increase of 2.46%.

Net Profit Before and After Tax			
	US\$ Million		%
	2021	2020	Change %
Net Profit Before Tax	5.173	5.026	2.94
Tax Expenses	(1.408)	(1.350)	4.24
Net Profit After Tax	3.765	3.675	2.46

Total Revenue				
	US\$ Million		%	
	2021	2020	2021	2020
Net Interest Income	16.3	16.10	72.78	71.02
Net Commission	4.17	3.79	17.78	16.70
Gains from Financial Assets	0.77	0.85	-1.98	5.25
Gains from Foreign Currencies and Currency Revaluation	2.15	1.44	9.15	6.36
Other	0.53	0.15	2.26	0.67
Total	23.91	22.33	100	100

Revenues Structure

2021

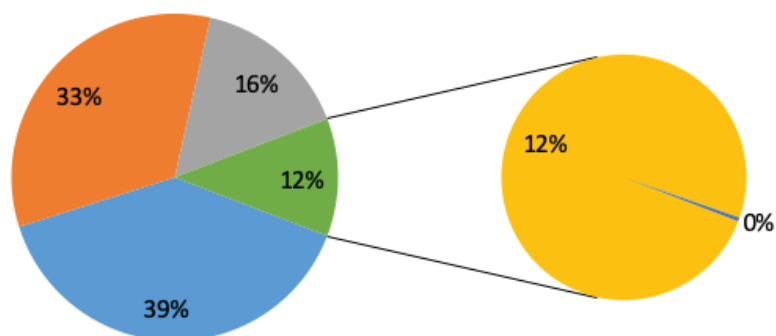


Expenses and Provisions

Total expenses and provisions reached \$18.274 million in 2021 compared with \$17.639 million in 2020, with an increase of \$635 thousand, representing about 3.6%.

Expenses, Provisions, and their Relative Importance				
	US\$ Million		%	
	2021	2020	2021	2020
Personnel Expenses	7.178	6.864	39.28	38.91
Other Operating Expenses	6.106	6.760	33.41	38.32
Provisions for Expected Credit Losses	2.862	1.734	15.66	9.83
Depreciation and Amortization	2.118	2.277	11.59	12.91
Other Expenses	0.010	0.005	0.05	0.03
Total	18.274	17.639	100	100

Expenses and Provisions
2021



- Personnel Expenses
- Other Operating Expenses
- Provisions for Expected Credit Losses
- Depreciation and Amortization
- Other Expenses

Key Financial Ratios for 2021 Compared with 2020		
	%	
	2021	2020
Return on Equity	3.67	3.72
Return on Capital	4.83	4.71
Return on Assets	0.51	0.57
Credit Facilities to Deposits	57.21	58.67
Credit Facilities to Assets	42.89	45.99
Total Equity to Assets	13.90	15.42
Basic Share of Profit for the Year	4.83	4.71

Internal Audit

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

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

Risk Management

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

Methodologies and the Process of Risk Management

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

Risk Management Works within the Following Framework:

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

Anti-Money Laundering

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

External Audit

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

Headquarters ensures regular maintenance of all of its branches and offices in order to preserve a high standard of offering, internally and externally, to ensure high customer satisfaction. With a high dispersion of branches, the Bank gives customers the banking services and facilities at the convenience and comfort of their jurisdiction while striving to deliver the highest quality of service.

During the year of 2021, major efforts have been put in place in upgrading and developing internal policies and procedures for all branches and offices in order to fully maximize performance, efficiency, labor productivity, and technological breakthroughs in order to ensure a higher standard of customer service across all branches and offices.

Technological Development and Information Systems

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

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

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

Human Resources

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

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

Executive management has been keen on taking care of the Bank's staff in response to the effort of each employee. Executive management organizes many activities and programs for staff in order to strengthen loyalty and affiliation given that human capital is the Bank's most valuable asset. The Bank has sent 172 employees to attend training courses inside and outside of Palestine in all of the disciplines necessary for the Bank.

Foreign Banking Services and Various Treasury Activities

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

This is done through deliberate and cautious policy in order to achieve an appropriate and reasonable return on those resources. The Bank has maintained its advanced ranking in the fields of treasury and banking services and trading in foreign currencies as the Bank continues to issue money orders, cashier's checks and the sale and purchase of foreign currencies through a correspondent bank network with banks financial institutions spread all over the world. Treasury activities contributed to a strong performance for the year of 2021, similar to that of 2020 in the field of foreign currency trading resulting in \$2.029 million in revenue for the bank.

Global Securities Co. (GSC)

Global Securities is a financial company engaged in Local stock market as a brokerage firm. It is based in the city of Nablus, registered with the Companies Controller in Palestine in December, 1996 under registration No.563119148. The company commenced its operations in January 1998. The company's capital is \$3,526,093 fully paid.

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

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

The Bank's Development Policies

Since its inception to the present day, the Bank is constantly evolving; evidenced by the volume of operating assets, and the size of profits realized since the beginning of the bank till 31/12/2021.

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

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

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

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

Governance:

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

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

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

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

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

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

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

Transparency and Disclosure

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

Rewards and Incentives

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

Board of Directors & Conflicts of Interest

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

Disclosures to Shareholders

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

Strategic Investors with ownership More Than 10%

Name	Number of Shares as of 31/12/2021	Percent of Shares %
Al-Yazan Co. for Real Estate & Financial Investments	13,757,611	17.64
Aswaq Investments	20,043,249	25.69
Palestine Pension Agency	8,174,885	10.48

Shares Owned by Board Members

Name	Position	Number of Shares as of 31/12/2021	Percent of Shares %
Mr. Abed Dayeh	Chairman of Board of Directors	4,855,596	6.22
Mr. Khalil Nasr	Vice Chairman of Board of Directors	13,456	0.02
Al-Yazan Co. for Real Estate & Financial Investments	Member	13,757,611	17.64
Mr. Yousef Bazian	Member	12,233	0.02
Mr. Sami Sayed	Member	16,820	0.02
Mr. Yazan Abdul Aziz	Member	753,176	0.96
Mr. Waleed Al-Najar	Member	10,000	0.1
Mr. Basem Abed Al Halim	Member	10,400	0.01
Palestinian Pension Agency	Member	8,174,885	10.48
A.Y. Consultants	Member	1,737,487	2.23
Uni Brothers LMTD	Member	6,008,402	7.70

The company's stock trading on the Palestine Exchange in 2021

Item	2021	2020
Highest Price	1.38	1.25
Lowest price	1.10	1.06
Opening price	1.18	1.27
Closing price	1.21	1.18

Number of Traded Shares	Number of Transactions	Value in Dollars
2,901,468	380	3,617,373

Duties of the Board of Directors to the Shareholders and Corporate Governance

The generally accepted principles of corporate governance applied to the Bank's various activities have been continually implemented throughout the year 2021.

Board Meetings:

The Board of Directors held six meetings during the year 2021.

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

The Company's Policy of Social Responsibility

According to its policy of social responsibility and donations approved by the Board of Directors, in order to achieve the goals set out in the policy, the Bank has continued its activities during the year 2021 to turn towards social responsibility anxious to interact with the various activities of the Palestinian society. In addition, the Bank extended its role in the social service of the environment in Palestine through sponsoring and care of many of the social, charitable, and sports activities. Financial support is being provided for many of the students, associations, charities, volunteers, and national support programs that aim at the best interest of our nation's young people. The Higher Committee, formed for this paper, has agreed to allocate the amount of \$92,763 for various activities.

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

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

Board of Directors' Remuneration:

During the year 2021, remunerations were dispersed to the members of the Board of Directors. These include membership allowance, allowance for attending board meetings and additional allowance detailed in the following table. None of the members of the Board of Directors receives a salary.

Name	2021 (In US\$)	2020 (In US\$)
Mr. Abed Dayeh	55,000	12,000
Mr. Khalil Nasr	30,000	12,000
Mr. Jameel Al-Muti	8,000	12,000
Dr. Adnan Steitieh	8,000	12,000
Mr. Sami Al-Sayid	30,000	12,000
Mr. Yazan Dayeh	10,000	12,000
Mr. Yousef Bazian	22,000	12,000
Mr. Waleed Al-Najar	10,000	12,000
Mr. Basem Abed El Halim	8,000	12,000
Mr. Hanna Abuaitah	9,000	12,000
Dr. Tareq El Haj	10,000	12,000
Total	200,000	132,000

Academic Degrees held by Bank Employees:

- 15 employees hold Master Degrees.
- 223 employees hold Bachelor Degrees.
- 28 employees hold Diploma qualifications.
- 14 employees hold qualifications below a High School Degree.

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

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

Nablus, PO Box 1776

Tel: +970 (9) 2387880/1

Fax: +970 (9) 2385060

PALESTINE INVESTMENT BANK
(PUBLIC SHAREHOLDING COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Opinion

We have audited the consolidated financial statements of Palestine Investment Bank and its subsidiaries (collectively the "Bank"), which comprise of the consolidated statement of financial position as at December 31, 2021, consolidated income statement, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matter	Audit Procedures
Expected Credit Losses "ECL" allowances: The estimation process of the expected credit losses of credit facilities, balances at banks and financial institutions, and financial assets at amortized cost in accordance with IFRS (9) is important and complex as it requires significant judgement. IFRS (9) requires the use of the ECL model, which requires the Bank's management to use various assumptions and estimates to determine both the time and value of ECL in addition to applying judgment in determining the inputs within the impairment measurement process, including collaterals and default date. Given the importance of the provisions applied in IFRS (9) and the credit exposures that form a major part of the bank's assets, ECL calculation is considered a significant audit risk. Net credit facilities, balances at banks and financial institutions and financial assets at amortized cost amounted to U.S. \$ 489,956,749 as at December 31, 2021 which represents 66% of the bank's total assets. The related ECL amounted to U.S. \$ 7,957,355 as at December 31, 2021. Accounting policies, estimates, significant accounting judgments, disclosures of the ECL, and credit risk management are detailed in notes (3, 5, 7, 9, 41 and 45) to the consolidated financial statements.	Our audit procedures included assessing the controls on procedures for granting, recording and monitoring credit facilities, and the process of measuring ECL, including the requirements of the Palestine Monetary Authority (PMA) to verify the effectiveness of the main controls are in place, which determine the impairment in credit facilities, balances at banks and financial institutions, financial assets at amortized cost and the required provisions against them. Our procedures for testing controls also included assessing whether key controls, in the processes had been designed, applied and effectively implemented; in addition to performing the following assessment procedures: - The Bank's policies related to the ECL provision in accordance with IFRS (9). - Key assumptions and judgments related to the material increase in credit risk, the definition of default, and the use of macroeconomic inputs to verify that the ECL amounts recorded reflect the underlying credit quality and macroeconomic trends. - The appropriateness of the Bank's staging. - The appropriateness of determining Exposure at Default (EAD), including the consideration of the cash flows repayments and the resultant arithmetical calculations. - The appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages. - The accuracy and appropriateness of ECL calculation process - Credit facilities transferred between stages, and the determination basis of significant increase in credit facilities risk in regard to timely identification with a significant deterioration in credit quality. - ECL calculation for credit facilities determined to be individually impaired. We also obtained an understanding of the latest developments in estimated future cash flows, current financial position and any rescheduling or restructuring agreements. - Procedures followed for collaterals valuation in accordance with the evaluation policies of the Bank. - Assessed the adequacy of the disclosures to the consolidated financial statements to ensure compliance with IFRS (9).

Other information included in the Bank's 2021 Annual Report

Other information consists of the information included in the Bank's 2021 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatements of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report; however, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2021 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

Saeel Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

April 4, 2022
Ramallah – Palestine

Consolidated Statement of Financial Position

As at December 31, 2021

		December 31, 2021	December 31, 2020
	Note	U.S. \$	U.S. \$
ASSETS			
Cash and balances with Palestine Monetary Authority	4	205,722,068	156,335,367
Balances at banks and financial institutions	5	155,976,991	119,080,453
Financial assets at fair value through profit or loss	6	8,187,655	17,414,016
Direct credit facilities	7	316,709,722	294,907,755
Financial assets at fair value through other comprehensive income	8	52,293	44,134
Financial assets at amortized cost	9	17,270,036	13,929,060
Property, Plant and equipment	10	25,353,798	25,870,557
Right of use assets	11	1,344,517	1,684,976
Intangible Assets	12	1,243,195	1,380,951
Deferred Tax Assets	13	1,338,026	912,117
Other assets	14	5,306,278	9,623,912
Total Assets		738,504,579	641,183,298
LIABILITIES AND EQUITY			
Liabilities			
Istidama loans from Palestine Monetary Authority	15	1,408,750	750,000
Banks and financial institutions' deposits	16	60,714,507	22,589,057
Customers' deposits	17	519,410,382	475,203,603
Cash margins	18	34,134,909	27,456,340
Subsidiary Loan	19	1,000,000	1,000,000
Sundry Provisions	20	3,966,841	3,996,201
Leases Liabilities	21	1,378,697	1,759,429
Taxes Provisions	22	1,467,568	1,109,573
Other liabilities	23	12,395,721	8,465,732
Total Liabilities		635,877,375	542,329,935
Equity			
Paid-in share capital	1	78,000,000	78,000,000
Statutory reserve	25	10,081,805	9,695,787
General banking risks reserve	25	3,492,926	3,357,489
Pro-cyclicality reserve	25	2,249,383	1,824,766
Fair value reserve	8	(25,119)	(33,278)
Assets revaluation Surplus	26	3,212,555	3,212,555
Retained earnings		5,615,654	2,796,044
Total Equity		102,627,204	98,853,363
Total Liabilities and Equity		738,504,579	641,183,298

Palestine Investment Bank P.I.C

Consolidated Income Statement

For the year ended December 31, 2021

		2021	2020
	Note	U.S. \$	U.S. \$
Interest income	27	22,474,047	20,166,982
Interest expense	28	(5,407,666)	(4,070,501)
Net interest income		17,066,381	16,096,481
Net commissions	29	4,170,203	3,785,315
Net interest and commissions income		21,236,584	19,881,796
Foreign currencies gains		2,029,636	1,352,865
Gain from currency revaluation		116,416	88,211
Gains from financial assets	30	-	1,191,010
Other revenues	31	529,794	151,609
Profit before provisions for expected credit losses		23,912,430	22,665,491
Provisions for expected credit losses, net	34	(2,862,464)	(1,733,796)
Gross profit		21,049,966	20,931,695
Expenses			
Personnel expenses	32	7,178,000	6,863,509
Other operating expenses	33	6,105,869	6,759,552
Depreciation and amortization	10,11,12	2,068,887	2,221,127
Losses from financial assets	30	464,312	-
Finance cost related to lease contracts	21	49,057	56,327
Palestine Monetary Authority's fines	35	10,000	5,000
Total expenses		15,876,125	15,905,515
Profit before taxes		5,173,841	5,026,180
Taxes expense	22	(1,408,159)	(1,350,878)
Profit for the year		3,765,682	3,675,302
Basic and diluted earnings per share	36	0.048	0.047

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2021

		2021	2020
	Notes	U.S. \$	U.S. \$
Profit for the year		3,765,682	3,675,302
Other comprehensive income items			
items not to be reclassified to the consolidated income statement in subsequent periods:			
Change in the fair value of financial assets	8	8,159	(2,981)
Total other comprehensive income		8,159	(2,981)
Net comprehensive income for the year		<u>3,773,841</u>	<u>3,672,321</u>

Palestine Investment Bank P.I.C

Consolidated Statement of Changes in Equity
For the year ended December 31, 2021

	Reserves								
	Paid-in share capital	Statutory	General		Pro-cyclicality	Fair value	Asset revaluation surplus	Retained earnings	Total equity
			banking risks						
<u>December 31, 2021</u>	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	78,000,000	9,695,787	3,357,489	1,824,766	(33,278)	3,212,555	2,796,044	98,853,363	
Profit for the year	-	-	-	-	-	-	3,765,682	3,765,682	
Other comprehensive income items	-	-	-	-	8,159	-	-	8,159	
Net comprehensive income for the year	-	-	-	-	8,159	-	3,765,682	3,773,841	
Transferred to reserves	-	386,018	135,437	424,617	-	-	(946,072)	-	
Balance, end of the year	78,000,000	10,081,805	3,492,926	2,249,383	(25,119)	3,212,555	5,615,654	102,627,204	
Reserves									
	Paid-in share capital	Statutory	General		Pro-cyclicality	Fair value	Asset revaluation surplus	Retained earnings	Total equity
			banking risks						
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2020	78,000,000	9,295,295	2,481,489	1,723,266	(29,975)	3,212,555	3,618,412	98,301,042	
Profit for the year	-	-	-	-	-	-	3,675,302	3,675,302	
Other comprehensive income items	-	-	-	-	(2,981)	-	-	(2,981)	
Net comprehensive income for the year	-	-	-	-	(2,981)	-	3,675,302	3,672,321	
Gains from sale of financial assets through other comprehensive income recognized in the retained earnings	-	-	-	-	(322)	-	322	-	
Cash dividends (note 24)	-	-	-	-	-	-	(3,120,000)	(3,120,000)	
Transferred to reserves	-	400,492	876,000	101,500	-	-	(1,377,992)	-	
Balance, end of the year	78,000,000	9,695,787	3,357,489	1,824,766	(33,278)	3,212,555	2,796,044	98,853,363	

Palestine Investment Bank P.I.C

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

		2021	2020
	Notes	U.S. \$	U.S. \$
Operating activities			
Profit for the year before taxes		5,173,841	5,026,180
Adjustments for:			
Provisions for expected credit losses, net	34	2,862,464	1,733,796
Depreciation and amortization		2,068,887	2,221,127
Gains from sale of financial assets at amortized cost		-	(156,945)
Losses (gains) from sale of financial assets at fair value through profit or loss		413,941	(5,097)
Net revaluation losses from financial assets at fair value through profit or loss	30	98,410	(434,611)
Loss from disposal of property, plant and equipment		100,000	-
Finance costs on lease liabilities	21	49,057	56,327
Sundry provisions		566,784	1,045,342
Other non-cash items		(34,550)	15,484
		<u>11,298,834</u>	<u>9,501,603</u>
Changes in assets and liabilities:			
Statutory cash reserve		(6,496,831)	(7,021,000)
Direct credit facilities		(24,506,435)	(70,785,974)
Other assets		4,217,634	1,713,802
Customers' deposits		44,206,779	136,133,292
Cash margins		6,678,569	1,615,060
Other liabilities		<u>3,994,428</u>	<u>715,843</u>
Net cash from operating activities before taxes and paid provisions		<u>39,392,978</u>	<u>71,872,626</u>
Taxes paid		(1,440,356)	(1,883,765)
Sundry provisions paid		<u>(597,311)</u>	<u>(709,106)</u>
Net cash from operating activities		<u>37,355,311</u>	<u>69,279,755</u>
Investing activities:			
Sale of financial assets at fair value through other comprehensive income		-	69,805
Matured financial assets at amortized cost		10,373,360	3,370,321
Purchase of financial assets at amortized cost		(13,788,011)	(980,892)
Sale of financial assets at amortized cost		-	2,126,316
Purchase of financial assets at fair value through profit or loss		(4,679,334)	(2,003,000)
Sale of financial assets at fair value through profit or loss		13,393,344	9,964,286
Purchase of property, plant and equipment		(950,740)	(544,919)
Purchase of Intangible assets		<u>(67,043)</u>	<u>(443,880)</u>
Net cash from investing activities		<u>4,281,576</u>	<u>11,558,037</u>
Financing activities:			
Payments of long-term Lease liabilities		(485,919)	(312,875)
Cash dividends paid		(67,645)	(2,915,232)
Istidama loans from Palestine Monetary Authority		<u>658,750</u>	<u>750,000</u>
Net cash from (used in) financing activities		<u>105,186</u>	<u>(2,478,107)</u>
Increase in cash and cash equivalents		<u>41,742,073</u>	<u>78,359,685</u>
Cash and cash equivalents, beginning of the year		<u>222,214,621</u>	<u>143,854,936</u>
Cash and cash equivalents, end of the year	37	<u>263,956,694</u>	<u>222,214,621</u>
Interest revenue received		<u>22,280,448</u>	<u>19,509,642</u>
Interest expense paid		<u>5,225,722</u>	<u>3,880,330</u>

Notes to the Consolidated Financial Statements

December 31, 2021

1. General

Palestine Investment Bank P.L.C (the Bank) was established in Palestine in August 10, 1994 in accordance with Companies' Law of 1964 under registration no, (563200864) with a share capital amounted to U.S. \$ 20 million. Following the decision of the extraordinary general assembly during its meeting held on May 13, 2010, the Bank's authorized capital was increased to 100 million shares at U.S. \$ 1 par value for each share. The Bank's paid in share capital as at December 31, 2021 amounted to U.S. \$ 78 million based on 78 million shares at U.S. \$ 1 par value each.

The Bank carries out all of its banking activities through the head quarter in Ramallah and its eleven branches and ten offices located in Palestine in addition to Bahrain branch with Bank's personnel of (280) employees. The Bank carries out all of its banking activities which include opening current accounts as at December 31, 2021, accepting deposits, lending money, payment services, money transfer, buy and sell currencies, Bill and commercial papers discount, and other activities according to approvals from competent authorities.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting held on January 20, 2022.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of Palestine Investment Bank (the Bank) and its subsidiaries and its investments that have been consolidated with the bank as at December 31, 2021. The Bank's ownership in the subsidiaries' share capital was as follows:

Company name	Main activity	Ownership percentage		Subscribed capital	
		2021	2020	2021	2020
Global Securities Company	Brokerage firm	100%	100%	3,526,093	3,526,093
Horizon Real Estate Private Shareholding Limited Co.	Real Estate management	100%	100%	5,000,000	5,000,000

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

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

The Bank and its subsidiaries operate in the Palestinian Authority areas and Bahrain.

3. Accounting policies**3.1 Basis of consolidation of financial statements**

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries as of December 31, 2021. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investee to affect its returns.

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

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

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statement from the date the Bank gains control until the date the Bank ceases to control the subsidiary. The effect of the change in the ownership percentage in the subsidiaries (without losing control of them) is recorded as transactions between owners.

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

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

3.2 Basis of preparation

The consolidated financial statements as at December 31, 2021 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and in conformity with local prevailing laws and Palestinian Monetary Authority (PMA) regulations.

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

The consolidated financial statements are presented in U.S. Dollars (U.S. \$), which is the functional currency of the Bank.

3.3 Changes in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the prior year ended December 31, 2020, except for the adoption of new standards effective as of January 1, 2021 shown below:

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- To require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest,
- To permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued,
- To provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments did not have a material impact on the consolidated financial statements of the Bank.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

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. 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. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease Modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Bank has not received Covid-19-related rent concessions.

Standards issued but not effective

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

Reference to the Conceptual Framework – Amendments to IFRS (3)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

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

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

3.4 Summary of Significant Accounting Policies

Revenues recognition

The effective interest rate method

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

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

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

Interest and similar income and expense

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

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

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

Fees and commission income

Fees income can be divided into the following two categories:

- Fees income earned from services that are provided over a certain period of time. Fees earned for the provision of services over a period of time are accrued over that period.
- Fee income forming an integral part of the corresponding financial instrument

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

Dividend income

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

Service and rent revenues

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

Credit Facilities

Credit facilities are stated net of provision for expected credit losses and suspended interest.

Interest and commissions are suspended on non-performing credit facilities granted to clients in accordance with the instructions of the Palestine Monetary Authority, and the calculation of interest and commissions on credit facilities for which legal measures have been taken are suspended.

The credit facilities for which a provision is prepared shall be written off in the event that the measures taken to collect them are ineffective by deducting them from the provision in accordance with the instructions of the Palestine Monetary Authority, and any surplus in the provision is transferred to the consolidated statement of income, and the collection of the previously written off debts is added to the revenues

The facilities that have been in default of more than six years, the related suspended interest and provisions are excluded from the bank's consolidated financial statements in accordance with the instructions of the Palestine Monetary Authority

Financial Assets and liabilities

Investment in financial assets

Purchases and sales of financial assets are recorded on the date of the operation, which is the date of the commitment to buy or sell the financial assets. Regular purchases and sales of financial assets are those in which the financial assets are transferred within the specified period in accordance with the laws or what is generally accepted in the market regulations. Financial assets are recorded at fair value upon purchase, and direct acquisition expenses are added, except for financial assets at fair value through income statement, which are initially recorded at fair value. All financial assets are subsequently recorded at amortized cost or fair value

Financial assets at amortized cost

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

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

Debt instruments that meet the two previous conditions are initially measured at fair value plus acquisition expenses (except if the bank chooses to classify these assets through the income statement as shown below). Subsequently, it is measured at amortized cost using the effective interest rate method after deducting the impairment. Interest income is recognized using the effective interest method.

The effective interest rate is the interest rate that is used to discount the future cash flows over the life of the debt instrument, or a shorter period in certain cases, to equal the book value at the date of initial recognition.

Upon initial recognition, the bank can irrevocably classify a debt instrument that met the amortized cost conditions mentioned above as financial assets at fair value through the statement of profit or loss if this leads to the removal or significant mitigation of the accounting mismatch as a result of classifying the financial instrument at amortized cost.

Financial assets at fair value through profit or loss

These financial assets represent debt instruments that do not meet the amortized cost conditions or financial instruments that meet the amortized cost conditions, but the bank chose to classify them at fair value through the income statement upon initial recognition. The Bank has not classified any debt instrument that fulfills the terms of debt instruments at amortized cost as financial assets at fair value through consolidated statement of profit or loss.

Upon initial recognition, the bank classifies the equity instruments at fair value as financial assets at FVTPL, except for investments not held for trading, where these assets can be classified at fair value through other comprehensive income.

Financial assets are measured at fair value through the income statement, and any gain or loss resulting from the change in its fair value is recorded in the consolidated income statement.

The dividends income on investing in financial instruments from the investee companies are recognized when the right to receive them is established.

Financial assets at fair value through other comprehensive income

At initial recognition, the bank makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to the consolidated income statement but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognized in the consolidated income statement when the bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Debt instruments can be classified as financial assets at FVTOCI if the following two conditions are met

- The debt instrument is held within a business model that aims to hold the asset to obtain contractual cash flows and sell them.
- The contractual terms of the instrument grant, on specific dates, the right to benefit from cash flows that represent payments from the principal and interest on the outstanding balance.

Reclassification of financial assets and liabilities

The bank does not reclassify its financial assets after the date of initial recognition, except in cases where the bank acquires or abolishes a business sector. Financial liabilities are never reclassified.

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

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

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

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

Derecognition other than for substantial modification

A. Financial assets

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

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

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

Or

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

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

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

A transfer only qualifies for derecognition if either:

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

Or

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

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

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

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

Financial Assets Derecognition

Financial assets are derecognized 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 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 of financial instruments

The fair value of financial assets and liabilities appearing in the statement of financial position and whose fair value cannot be obtained from active financial markets are determined through appropriate valuation methods that include discounted expected cash flows. Valuation inputs are obtained through observable markets if possible, and when it is not appropriate to rely on these inputs, a degree of estimates and assumptions are adopted to determine the fair value. These assumptions include factors specific to the inputs that are relied upon in determining fair value, such as liquidity risk, credit risk and other volatility. Changes in assumptions may affect the fair value amounts of financial assets shown in the financial statements.

Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The Business model assessment depends on reasonably expected scenarios without taking into consideration the “worse case” or “stress test” scenarios.

If cash flows after initial recognition are realized in a way that is different from the Bank’s original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial guarantees, letters of credit and unutilized facilities ceilings

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

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

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

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

Impairment of financial assets

Overview of the ECL principles

The implementation of International Financial Reporting Standard No. (9) has fundamentally changed the method of calculating the impairment loss of facilities for the bank through the approach of the expected credit loss method with a future outlook instead of recognizing the loss when the loss is incurred according to International Accounting Standard No. (39) as of January 1, 2019.

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

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

The expected credit loss allowance is based on the credit losses expected to occur over the life of the

asset, and if there has been no significant change in credit risk from the date of initial recognition, the allowance is based on the expected credit loss for a period of 12 months.

The 12-month expected credit loss is the portion of the expected credit loss over the life of the asset resulting from default events in financial instruments that may occur within 12 months from the date of the consolidated financial statements.

Expected credit losses are calculated for the entire life of the credit exposure and 12-months expected credit losses based on the nature of the financial instruments.

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

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

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

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

The calculation of ECLs

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

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

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as percentage of the EAD.

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

The mechanics of the ECL method are summarized below:

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

Bad debt not previously provided for and written off

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

Credit cards and other revolving facilities

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

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products.

The interest rate used to discount the ECLs for credit cards is the effective interest rate.

Expected credit losses is calculated, including the expected period for the exposure and the discounted rate, on an individual basis.

Forward looking information

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

- GDP growth
- Unemployment rates

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

Collateral valuation

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

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

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

Collaterals repossessed

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

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

Write-offs

The accounting policies used by the bank in relation to debt write-off according to International Financial Reporting Standard No. (9) do not differ compared to International Accounting Standard No. (39) and the instructions of the Palestine Monetary Authority.

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 deducted from expected credit loss expense.

Modified facilities

The Bank sometimes makes 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. Modifications may include extension of payments or agreeing to new financing terms. It is the Bank's policy to monitor the scheduled facilities to help ensure that future payments continue to occur. Classification decisions between Stage (2) and Stage (3) are determined on a case-by-case basis.

Fair value measurement

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

	Useful life (Years)
Real estate	50
Furniture and equipment	6 - 17
Leasehold improvements	5 – 11
Computers	4 – 10
Vehicles	5

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

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

The bank measures the land within real estate, plant and equipment at fair value in accordance with the revaluation model, whereby the revaluation difference is recorded in the consolidated statement of comprehensive income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The amortization expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets include computer systems and programs, and the bank's management estimates the time life so that computer systems and programs are amortized using the straight-line method over the expected useful life of ten years.

Impairment of non-financial assets

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

Offsetting

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

Provisions

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

Taxes provision

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

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

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

Provision for end of service indemnity

Provision is made for employees' end of service indemnity is estimated in accordance with the Labor Law effective in Palestine and the Bank's personnel policy.

Foreign currencies

Transactions in foreign currencies during the year are recorded at the exchange rates prevailing on the date of the transactions.

Monetary assets and liabilities are converted at foreign exchange rates prevailing at the date of the consolidated statement of financial position.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are reconverted into US dollars on the date that the fair value was determined.

Gains and losses arising from converting foreign currencies into US dollars are recorded in the consolidated income statement.

Earnings per share

Basic earnings per share is calculated by dividing 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 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 less treasury shares.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

Cash and cash equivalents

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

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.

Segments information

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

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

Use of estimates

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.

Following are the most important estimates and judgments used:

- 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.
- Legal cases provision is established to provide for any legal obligations, if any, based on the opinion of the Bank's lawyer.
- Determine the lease term for contracts with options for renewal and termination.

Provision for expected credit losses (ECL)

The provision for ECL is reviewed in accordance with the principles established by the Palestine Monetary Authority and IFRS (9). The determination of provision for ECL expected from management requires judgments and judgments to be made to estimate the amounts and timing of future cash flows, as well as to estimate any significant increase in the credit risk of financial assets after initial recognition, taking into consideration future measurement information for ECL.

The Bank has calculated the provision for ECL for financial assets in accordance with international reporting standards and is consistent with the instructions of the PMA.

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

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

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

Key concepts 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)**
 - Significant increase in credit risk is assessed on a proportional basis. 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. This evaluation is used to classify clients and portfolios for the credit rating stages, stage 1 (initial recognition), stage 2 (credit quality decline) and stage 3 (credit impairment).
 - In accordance with International Financial Reporting Standard No. (9), credit facilities must be transferred from phase 1 to phase 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 continues to assess borrowers for other indications of unwillingness to pay, keeping in mind consideration of the underlying cause of any financial difficulty and whether it is likely temporary or in the long term
- **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. The probability of default, the assumed default loss, the effect on default, and the inputs used in stage 1 and stage 2 for provision for expected credit losses are designed based on changing economic factors (or change in macroeconomic factors) that are directly related to the credit risk related to the portfolio. Each of the macroeconomic scenarios used in calculating the expected credit loss is associated with various macroeconomic factors.

- **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.

4. Cash and balances at Palestine Monetary Authority

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
Cash in the treasury	137,658,386	98,749,434
Balances with Palestine Monetary Authority:		
Current and demand accounts	30,943,019	26,962,101
Statutory cash reserve requirements	37,120,663	30,623,832
	205,722,068	156,335,367

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

5. Balances at banks and financial institutions

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
<u>Local banks and financial institutions:</u>		
Current and demand accounts	582,060	8,940
Deposits maturing within three months	42,797,123	5,122,880
	43,379,183	5,131,820
<u>Foreign banks and financial institutions:</u>		
Current and demand accounts	73,295,380	77,016,698
Deposits maturing within three months	39,395,233	36,943,625
	112,690,613	113,960,323
	156,069,796	119,092,143
Provision for expected credit losses	(92,805)	(11,690)
	155,976,991	119,080,453

- Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2021 and 2020 amounted to U.S. \$ 73,877,440 and U.S. \$ 77,025,638, respectively.
- Restricted balances at banks and financial institutions as at December 31, 2021 and 2020 amounted to U.S. \$ 4,879,255 and U.S. \$ 4,474,934, respectively.

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

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	119,092,143	-	-	119,092,143
Net change during the year	36,977,653	-	-	36,977,653
Balance, end of the year	156,069,796	-	-	156,069,796

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	105,631,354	-	-	105,631,354
Net change during the year	13,460,789	-	-	13,460,789
Balance, end of the year	119,092,143	-	-	119,092,143

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

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	11,690	-	-	11,690
Net change during the year	81,115	-	-	81,115
Balance, end of the year	92,805	-	-	92,805

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	48,913	-	-	48,913
Net change during the year	(37,223)	-	-	(37,223)
Balance, end of the year	11,690	-	-	11,690

6. Financial assets at fair value through profit or loss

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
Quoted stocks in global stock markets	8,187,655	17,414,016
	8,187,655	17,414,016

7. Direct credit facilities

	2021 U.S. \$	2020 U.S. \$
<u>Retail</u>		
Current overdrafts	17,749,157	20,077,791
Loans and promissory notes	107,512,513	99,298,744
Credit cards	2,100,477	2,175,700
<u>Corporate</u>		
Current overdrafts	24,468,193	18,675,193
Loans and promissory notes	94,619,595	101,281,939
Governmental and Public sector	79,984,769	59,766,366
	326,434,704	301,275,733
Suspended interests and commissions	(1,964,804)	(1,160,006)
Provision for expected credit losses	(7,760,178)	(5,207,972)
	<u>316,709,722</u>	<u>294,907,755</u>

- The total non-performing credit facilities classified, according to PMA instructions, after deducting the suspended interest as at December 31, 2021 and 2020 amounted to U.S. \$ 25,462,899 and U.S. \$ 15,366,065, representing 7.85% and 5.50% of the direct credit facilities balance net of suspended interest, respectively.
- The defaulted credit facilities classified, according to PMA instructions and after deducting the suspended interest as at December 31, 2021 and 2020 amounted to U.S. \$ 20,985,790 and U.S. \$ 14,618,477, representing 6.47% and 4.87% of the direct credit facilities balance net of suspended interest, respectively.
- According to PMA instructions number (1/2008), the defaulted credit facilities for more than 6 years were excluded from the consolidated financial statements. These defaulted facilities amounted to U.S. \$ 4,605,891 as at December 31, 2021, and the balance of provision and suspended interest for defaulted accounts amounted to U.S. \$1,552,475.
- Credit facilities granted to Palestine National Authority amounted to U.S. \$ 80,025,459, representing 24.66% of gross direct credit facilities after deducting suspended interests as at December 31, 2021, for an amount of U.S. \$ 59,766,366, representing 20% of direct credit facilities' balance after deducting suspended interests as at December 31, 2020.
- Credit facilities granted to non-residents amounted to U.S. \$ 371,996 and U.S. \$ 654,433 as at December 31, 2021 and 2020, respectively.
- The fair value of collaterals obtained against direct credit facilities amounted to U.S. \$ 144,395,272 and U.S. \$ 141,828,817 as at December 31, 2021 and 2020, respectively.

Suspended interests and commissions

A summary of the movement on the suspended interests during the year was as follows:

	2021 U.S. \$	2020 U.S. \$
Balance, beginning of the year	1,160,006	698,810
Suspended interest during the year	974,572	674,669
Suspended interest transferred to revenues during the year	(35,001)	(13,716)
Suspended interest written off	(27,235)	(88,798)
Write off to off-balance sheet provision	(107,538)	(110,959)
Balance, end of the year	<u>1,964,804</u>	<u>1,160,006</u>

A summary of the movement on gross carrying amount of direct credit facilities was as follows:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	257,432,147	26,189,847	17,653,739	301,275,733
Net change during the year	27,687,507	(5,208,566)	2,900,068	25,379,009
Transferred to stage (1)	8,284,390	(7,596,863)	(687,527)	-
Transferred to stage (2)	(17,574,548)	17,682,558	(108,010)	-
Transferred to stage (3)	(2,760,051)	(652,311)	3,412,362	-
Write off to off-balance sheet	-	-	(220,038)	(220,038)
Balance, end of the year	273,069,445	30,414,665	22,950,594	326,434,704

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	188,684,555	26,288,331	15,440,337	230,413,223
Net change during the year	74,946,822	(4,698,207)	1,130,794	71,379,409
Transferred to stage (1)	10,156,677	(10,108,148)	(48,529)	-
Transferred to stage (2)	(15,581,023)	15,582,523	(1,500)	-
Transferred to stage (3)	(774,884)	(874,652)	1,649,536	-
Write off to off-balance sheet	-	-	(516,899)	(516,899)
Balance, end of the year	257,432,147	26,189,847	17,653,739	301,275,733

Provision for expected credit losses

The movement on the provision for expected credit losses of direct credit facilities was as follows:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	1,035,800	146,881	4,025,291	5,207,972
Net change during the year	102,806	(31,100)	2,633,449	2,705,155
Transferred to stage (1)	5,128	(5,128)	-	-
Transferred to stage (2)	(236,699)	236,699	-	-
Transferred to stage (3)	-	(6,212)	6,212	-
Write off to off-balance sheet	-	-	(220,038)	(220,038)
Currency exchange differences	-	-	67,089	67,089
Balance, end of the year	907,035	341,140	6,512,003	7,760,178

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	731,967	216,521	2,736,293	3,684,781
Net change during the year	219,046	27,014	1,661,791	1,907,851
Transferred to stage (1)	128,785	(128,785)	-	-
Transferred to stage (2)	(37,398)	37,398	-	-
Transferred to stage (3)	(2,704)	(5,267)	7,971	-
Write off to off-balance sheet	-	-	(516,899)	(516,899)
Currency exchange differences	-	-	136,135	136,135
Adjustments	(3,896)	-	-	(3,896)
Balance, end of the year	1,035,800	146,881	4,025,291	5,207,972

A summary of the movement on gross carrying amount of direct credit facilities for government and public sector were as follows:

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	59,766,366	-	-	59,766,366
Net change during the year	20,218,403	-	-	20,218,403
Balance, end of the year	79,984,769	-	-	79,984,769

A summary of the movement on the provision for expected credit losses for government and public sector were as follows:

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	303,801	-	-	303,801
Net change during the year	267,838	-	-	267,838
Balance, end of the year	571,639	-	-	571,639

A summary of the movement on gross carrying amount of direct credit facilities for Corporates was as follows:

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	98,663,714	16,261,161	5,032,257	119,957,132
Net change during the year	(1,909,367)	(3,342,130)	4,467,772	(783,725)
Transferred to stage (1)	5,544,942	(5,307,054)	(237,888)	-
Transferred to stage (2)	(13,517,137)	13,624,953	(107,816)	-
Transferred to stage (3)	(1,299,509)	(193,150)	1,492,659	-
Write off	-	-	(85,619)	(85,619)
Balance, end of the year	87,482,643	21,043,780	10,561,365	119,087,788

A summary of the movement on the provision for expected credit losses for Corporates was as follows:

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	277,549	55,243	1,062,648	1,395,440
Net change during the year	(9,346)	(14,470)	1,746,917	1,723,101
Transferred to stage (1)	2,047	(2,047)	-	-
Transferred to stage (2)	(193,224)	193,224	-	-
Write off to off-balance sheet	-	-	(85,619)	(85,619)
Balance, end of the year	77,026	231,950	2,723,946	3,032,922

A summary of the movement on gross carrying amount of direct credit facilities for retails was as follows:

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	99,002,067	9,928,686	12,621,482	121,552,235
Net change during the year	9,378,471	(1,866,436)	(1,567,704)	5,944,331
Transferred to stage (1)	2,739,448	(2,289,809)	(449,639)	-
Transferred to stage (2)	(4,057,411)	4,057,605	(194)	-
Transferred to stage (3)	(1,460,542)	(459,161)	1,919,703	-
Adjustments	-	-	(134,419)	(134,419)
Balance, end of the year	105,602,033	9,370,885	12,389,229	127,362,147

A summary of the movement on the provision for expected credit losses for retails was as follows:

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	454,404	91,638	2,962,643	3,508,685
Net change during the year	(155,686)	(16,630)	886,532	714,216
Transferred to stage (1)	3,081	(3,081)	-	-
Transferred to stage (2)	(43,475)	43,475	-	-
Transferred to stage (3)	-	(6,212)	6,212	-
Write off to off-balance sheet	-	-	(134,419)	(134,419)
Currency exchange differences	-	-	67,089	67,089
Balance, end of the year	258,324	109,190	3,788,057	4,155,571

The movement on the provision for expected credit losses for direct credit facilities that have been defaulted for more than 6 years was as follows:

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	4,583,652	3,933,771
Additions	220,038	516,899
Recoveries	(223,025)	(173)
Written off	(52,841)	(1,507)
Currency exchange differences	78,067	134,662
Balance, end of the year	4,605,891	4,583,652

The movement on the suspended interests that have been defaulted for more than 6 years was as follows:

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	1,413,450	1,247,848
Additions	107,540	110,959
Suspended transferred to revenues	(761)	-
Suspended written off	(11,900)	(8,368)
Currency exchange differences	44,146	63,011
Balance, end of the year	1,552,475	1,413,450

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

	2021	2020
	U.S. \$	U.S. \$
Manufacturing and mining		
Manufacturing	30,886,902	25,514,653
Tourism, restaurants, and other hotels		
Restaurants	6,060,789	3,852,157
Financial services	3,200,000	3,500,000
Public services		
Telecommunications	6,400,318	3,492,155
Health	359,486	4,318,331
Education	2,697,955	2,882,605
Public facilities	1,258,894	7,119,253
Professionals	9,393,538	12,814,877
Agricultural and livestock sector		
Agricultural	763,242	5,614,755
Livestock	2,645,575	2,591,020
General trading		
Internal Trade	48,125,008	49,285,268
External Trade	32,416,328	27,062,411
Real estate and construction		
Construction	34,614,771	27,821,971
Housing	9,085,264	6,945,410
Real estates	10,256,458	9,639,710
Lands	14,865,254	13,536,812
Transportation		
Trade and shipping	10,018,921	13,725,654
Purchase of cars and private vehicles financing	8,271,448	10,388,925
Others in Consumer commodities financing		
Credit cards	6,117,448	4,011,877
Financial instruments and stocks investment financing		
Financial companies	-	-
Other	611,259	181,546
Other in private sector	6,395,583	6,049,971
Public sector		
Palestine National Authority	80,025,459	59,766,366
	<u>324,469,900</u>	<u>300,115,727</u>

8. Financial assets at fair value through other comprehensive income

	2021	2020
	U.S. \$	U.S. \$
Shares quoted in Amman Stock Exchange	52,293	44,134
	<u>52,293</u>	<u>44,134</u>

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

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	(33,278)	(29,975)
Change in fair value	8,159	(2,981)
Gains from sale of financial assets recognized in retained earnings	-	(322)
Balance, end of the year	<u>(25,119)</u>	<u>(33,278)</u>

9. Financial assets at amortized cost

	2021	2020
	U.S. \$	U.S. \$
Foreign governmental bonds*	11,097,903	4,999,179
Local governmental treasury bills**	697,689	980,892
Quoted bonds	5,578,816	1,979,686
Unquoted bonds***	-	6,000,000
	<u>17,374,408</u>	<u>13,959,757</u>
Provision for expected credit losses	<u>(104,372)</u>	<u>(30,697)</u>
	<u>17,270,036</u>	<u>13,929,060</u>

* This item represents the bank's investment in financial bonds issued by the Jordanian government, Moroccan government and Bahraini government with a maturity period of three to ten years. The interest rates on these bonds range between 4.25% to 6.13%.

** This item represents the bank's investment in government treasury bills, as per Palestine Monetary Authority Circular No. (64/2016), according to which the upper limit of the discount price of treasury bills in the shekel currency is 8% and on treasury bills in the dollar currency is 3% plus 6 months LIBOR. The interest rate on these bonds ranged from 6% to 8% and are due within a year.

*** This item represents the bank's investment in quoted bonds in global financial markets with a maturity period of three to six years. The interest rate on these bonds ranges between 3.5 % to 6.95%.

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	12,959,757	1,000,000	-	13,959,757
Net change during the year	(280,949)	3,695,600	-	3,414,651
Transferred to stage (2)	(4,000,000)	4,000,000	-	-
Balance, end of the year	<u>8,678,808</u>	<u>8,695,600</u>	<u>-</u>	<u>17,374,408</u>
	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	17,318,558	1,000,000	-	18,318,558
Net change during the year	(4,358,801)	-	-	(4,358,801)
Balance, end of the year	<u>12,959,757</u>	<u>1,000,000</u>	<u>-</u>	<u>13,959,757</u>

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	9,792	20,905	-	30,697
Net change during the year	75,161	(1,486)	-	73,675
Transferred to stage (2)	(10,502)	10,502	-	-
Balance, end of the year	74,451	29,921	-	104,372

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	152,745	2,822	-	155,567
Net change during the year	(142,953)	18,083	-	(124,870)
Balance, end of the year	9,792	20,905	-	30,697

10. Property, Plant and Equipment

Below is a summary of the movement on the property, plant and equipment account during the year:

	Land	Real estate	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Total
December 31, 2021	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cost:							
Balance, beginning of the year	5,769,225	16,407,308	5,397,665	5,798,860	1,625,968	661,051	35,660,077
Additions	-	-	104,181	846,559	-	-	950,740
Balance, end of the year	5,769,225	16,407,308	5,501,846	6,645,419	1,625,968	661,051	36,610,817
Accumulated Depreciation:							
Balance, beginning of the year	-	1,036,749	4,057,492	3,105,397	1,079,627	510,255	9,789,520
Depreciation for the year	-	361,128	357,508	537,417	101,582	109,864	1,467,499
Balance, end of the year	-	1,397,877	4,415,000	3,642,814	1,181,209	620,119	11,257,019
Net book value							
As at December 2021	5,769,225	15,009,431	1,086,846	3,002,605	444,759	40,932	25,353,798
As at December 2020	5,769,225	15,370,559	1,340,173	2,693,463	546,341	150,796	25,870,557

Property, plant and equipment include U.S. \$ 3,207,703 and U.S. \$ 2,822,993 of fully depreciated assets that are still used in bank's operations and its subsidiaries as at December 31, 2021 and December 31, 2020, respectively

11. Right-of-use assets

The movement details on right of use assets is as follows:

	2021	2020
	Buildings	Buildings
	U.S. \$	U.S. \$
Balance, beginning of the year	1,684,976	1,913,541
Additions	56,130	276,859
Amortization	(396,589)	(505,424)
Balance, end of the year	1,344,517	1,684,976

12. Intangible assets

	Computer systems and software
	U.S. \$
Cost:	
Balance, beginning of the year	3,148,827
Additions	67,043
Balance, end of the year	3,215,870
Amortization:	
Balance, beginning of the year	(1,767,876)
Additions	(204,799)
Balance, end of the year	(1,972,675)
Net book value	
As of December 31, 2021	1,243,195
As of December 31, 2020	1,380,951

13. Deferred tax assets

Deferred tax assets are calculated on the provision for expected credit losses that were previously recognized in the income statement, in addition to the provision for end of service benefits, the movement details on deferred tax assets is as follows:

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	912,117	988,172
Additions	425,909	-
Amortization	-	(76,055)
Balance, end of the year	1,338,026	912,117

14. Other Assets

	2021	2020
	U.S. \$	U.S. \$
Accrued and unreceived interests	1,656,358	1,462,759
Accounts receivable	964,541	1,260,552
Prepaid expenses	805,714	858,651
Advances to suppliers	557,407	511,998
Financial derivatives receivable	284,106	149,783
Projects in process	282,365	-
Refundable cash margins	202,312	202,312
Prepaid interests	10,492	40,363
Clearing checks	-	3,522,011
Precious metals	-	1,093,894
Others	542,983	521,589
	<u>5,306,278</u>	<u>9,623,912</u>

15. Istidama loans from Palestine Monetary Authority

This item represents PMA's deposits as per PMA instructions No. (22/2020) to mitigate the economic impacts of Coronavirus crisis (Covid-19) on the economic activities and projects, especially small and medium enterprises, PMA charges an interest of 0.5% on the credit facilities granted and the bank earns a declining interest at a maximum rate of 3%.

16. Banks and financial institutions' deposits

	2021	2020
	U.S. \$	U.S. \$
Banks and financial institutions inside Palestine:		
Current and demand accounts	2,835,954	41,312
Deposits maturing within three months	57,878,553	22,547,745
	<u>60,714,507</u>	<u>22,589,057</u>

17. Customers' deposits

	2021	2020
	U.S. \$	U.S. \$
Current and demand accounts	225,353,315	192,296,385
Saving deposits	158,134,032	129,501,673
Time deposits subject to notice	135,923,035	153,405,545
	<u>519,410,382</u>	<u>475,203,603</u>

- Public sector's deposits amounted to U.S. \$ 5,472,215 and U.S. \$ 3,620,936 representing 1.05% and 0.76% of total deposits as at December 31, 2021 and 2020, respectively.
- Non-interest deposits amounted to U.S. \$ 227,488,476 and U.S. \$ 191,788,811 representing 43.8% and 40.36% of total deposits as at December 31, 2021 and 2020, respectively.
- Dormant deposits amounted to U.S. \$ 8,650,434 and U.S. \$ 7,901,114 representing 1.67% and 1.66% of total deposits as at December 31, 2021 and 2020, respectively.

18. Cash margins

This item represents cash margins against:

	2021	2020
	U.S. \$	U.S. \$
Direct credit facilities	30,353,779	23,780,946
Indirect credit facilities	3,781,130	3,675,394
	<u>34,134,909</u>	<u>27,456,340</u>

19. Subsidiary Loan

During the year 2018, Horizons Real Estate Company, a wholly owned subsidiary of the Bank, signed a loan agreement in the amount of one million US dollar with The National Bank. The balance of these facilities is entitled to an annual declining interest at an average rate of 5%. The total utilized balance of these facilities amounted to \$1,000,000 as at December 31, 2021 and 2020. This loan is due in one payment on January 23, 2022.

20. Sundry provisions

The summary of movement on Sundry provisions during the year was as follows:

	Balance, beginning of the year	Additions	Paid during the year	Currency exchange differences	Balance, end of the year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2021					
Employees' end of service provision	3,463,425	393,391	(246,435)	-	3,610,381
Lawsuits provision	421,296	173,393	(350,876)	1,167	244,980
Other	111,480	-	-	-	111,480
	<u>3,996,201</u>	<u>566,784</u>	<u>(597,311)</u>	<u>1,167</u>	<u>3,966,841</u>
2020					
Employees' end of service provision	3,418,985	383,862	(339,422)	-	3,463,425
Lawsuits provision	238,424	550,000	(369,684)	2,556	421,296
Other	-	111,480	-	-	111,480
	<u>3,657,409</u>	<u>1,045,342</u>	<u>(709,106)</u>	<u>2,556</u>	<u>3,996,201</u>

21. Lease liabilities

Following is the movement on lease liabilities:

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	1,759,429	1,739,118
Additions during the year	56,130	276,859
Lease payments	(485,919)	(312,875)
Finance costs	49,057	56,327
Balance, end of the year	<u>1,378,697</u>	<u>1,759,429</u>

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 amount of fines for terminating the lease contracts, if the entity intends to implement the termination option as per the terms of the contracts.

The lease liability has been discounted (present value calculation) using an interest rate of 3% for a period of 10 years.

The following table represents the classification of terms of leased contract obligations:

	2021	2020
	U.S. \$	U.S. \$
Short-term lease liabilities	334,440	332,949
Long-term lease liabilities	1,044,257	1,426,480
	<u>1,378,697</u>	<u>1,759,429</u>

22. Tax provisions

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	1,109,573	1,705,560
Provision for the year	1,834,068	1,274,823
Paid taxes during the year	(1,440,356)	(1,883,765)
Currency exchange differences	(35,717)	12,955
Balance, end of the year	<u>1,467,568</u>	<u>1,109,573</u>

The bank didn't reach a final settlement with both the Income Tax and Value Added Tax departments on their results of operations for the years ended 2014, 2017, 2018 and 2019 and 2020. Income tax and value added tax rates were %15 and %16 as of December 31, 2021. According to Law No. (4) for the year 2014, concerning the amendment of Law No. (8) for the year 2011 related to income taxes; income tax rate on profits resulted from financing small and medium enterprises equals to %10.

Global Securities company and Horizons Real Estate Company Limited (subsidiaries companies) have reached a final settlement with the Income Tax Department during the year 2021 on the results of their business operations for the year 2020.

Taxes reported in consolidated income statement represents the following:

	2021	2020
	U.S. \$	U.S. \$
Provision for the current year	1,834,068	1,274,823
(Additions) amortizations of deferred tax assets (Note 13)	(425,909)	76,055
Tax expense for the year	<u>1,408,159</u>	<u>1,350,878</u>

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

	2021	2020
	U.S. \$	U.S. \$
Accounting profit of the bank before tax	5,173,841	5,026,180
Non-taxable expenses	1,311,497	1,642,684
Gross profit subject to VAT	6,485,338	6,668,864
Net profit subject to value added tax		
Deduct: value-added tax	(894,529)	(466,689)
Value added tax on salaries	(736,511)	(725,568)
Adjustments for the purpose of calculating income tax	(1,037,526)	(1,134,708)
Profit subject to income tax	3,816,772	4,341,899
Income tax	572,516	651,285
Taxes payable for the year	1,467,045	1,117,974
Taxes assigned during the year	1,834,068	1,274,823
Tax rate	35%	25%

23. Other liabilities

	2021	2020
	U.S. \$	U.S. \$
Accounts payable and temporary deposits	3,510,651	2,815,788
Checks under collection	3,045,036	914,186
Financial derivatives payable	1,367,070	699,361
Accrued and unpaid interests	1,236,676	1,054,732
Unearned interest and commission income	1,200,917	1,234,489
Deferred tax liabilities (Note 26)	566,921	566,921
Dividends payable	555,860	623,605
Clearing checks	362,323	-
Board of Directors bonuses	127,000	170,000
Accrued expenses	119,449	116,275
Provision for expected credit losses on indirect credit facilities	16,087	12,881
Others	287,731	257,494
	12,395,721	8,465,732

24. Cash and Stocks dividends

The Bank's General Assembly, during its meeting held on May 20, 2020 decided to distribute 4% of the total paid in share capital in the amount of U.S \$ 3,120,000.

25. Reserves

- Statutory reserve

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

- **General banking risks reserve**

The item represents the amount of general banking risk reserve deducted in accordance with PMA's regulations number (6/2015) based on 1.5% of direct credit facilities after deducting impairment allowance for credit facilities and suspended interest and 0.5% of indirect credit facilities. In accordance with PMA's circulation number (53/2013), no general banking risk reserve is created against the direct credit facilities granted to small and medium enterprises if the conditions mentioned in the circular are met. During 2019, the Bank applied IFRS (9) and utilized this reserve for the ECL of stage (1) and 2 in accordance with PMA instructions No. (2/2018). The reserve will not to be utilized or reduced without PMA's prior approval.

- **Pro-cyclicality reserve**

This item represents the value of the reserve that was deducted in accordance with the instructions of the Palestinian Monetary Authority No. (6/2015) at 15% of the net profit after taxes to support the bank's capital and to face the risks surrounding the banking business. No part of the cyclical fluctuation reserve may be used or reduced in any way without the prior approval of the Palestinian Monetary Authority. This deduction may not be stopped before the total amounts collected for this account reach the equivalent of 20% of the bank's capital. During 2019, the Palestinian Monetary Authority's instructions No. (13/2019) were issued regarding calculating the counter-cyclical capital source, as it will be calculated as a percentage of the risk-weighted assets determined by the Palestinian Monetary Authority, ranging between (0% - 2.5%), where it must The bank must disclose the source of the counter-cyclical capital in its financial statements starting from December 2023.

26. Assets revaluation surplus

During the year 2015, the bank changed the accounting policy related to the treatment of the land item within property, plant and equipment, so the land to be reported at fair value at the date of the financial statements. The revaluation surplus amounted to U.S. \$ 3,212,555 as at December 31, 2021. The revaluation surplus was recognized in the consolidated other comprehensive income items in the amount of US \$ 3,212,555 after deducting the required deferred taxes in the amount of U.S. \$ 566,921 (note 23). According to management estimates, the fair value of the land as of December 31, 2021 is not materially different from its fair value as at December 31, 2020.

27. Interest income

This item comprises interest revenues earned on the following accounts:

	2021	2020
	U.S. \$	U.S. \$
Loans	12,119,276	11,584,899
Government and public sector	4,570,234	2,183,806
Overdraft accounts	4,224,548	4,403,983
Financial assets at amortized cost	768,234	852,729
Balances at banks and financial institutions	484,252	766,958
Credit cards	307,503	374,607
	<u>22,474,047</u>	<u>20,166,982</u>

28. Interest expense

This item comprises the following accounts:

	2021	2020
	U.S. \$	U.S. \$
Interests on customers' deposits:		
Current and demand accounts	41,166	43,952
Saving deposits	10,184	7,213
Time deposits and subject to notice	4,823,903	3,646,646
Cash margins	202,679	160,100
Interests on banks' and financial institutions' deposits	91,132	95,400
Interests paid to PMA	238,602	117,190
	<u>5,407,666</u>	<u>4,070,501</u>

29. Net commissions

	2021	2020
	U.S. \$	U.S. \$
Direct credit facilities	1,261,242	1,295,690
Indirect credit facilities	381,314	410,378
Returned Checks	588,472	701,800
Account's management	691,772	611,329
Bank transfers	656,407	448,165
Other commissions	1,358,932	913,099
	<u>4,938,139</u>	<u>4,380,461</u>
Less: commissions paid	<u>(767,936)</u>	<u>(595,146)</u>
Net commissions	<u>4,170,203</u>	<u>3,785,315</u>

30. (Losses) gains form financial assets

	2021	2020
	U.S. \$	U.S. \$
Dividends revenue	48,039	531,849
(Losses) gains from revaluation of financial assets at fair value through profit or loss	(98,410)	434,611
Gains from sale of financial assets at amortized cost	-	156,946
Gains from revaluation of gold	-	62,507
(Losses) gains from sale of financial assets at fair value through profit or loss	<u>(413,941)</u>	<u>5,097</u>
	<u>(464,312)</u>	<u>1,191,010</u>

31. Other revenues

	2021	2020
	U.S. \$	U.S. \$
Recovery from off-balance sheet provisions	223,025	-
Checks books	143,800	105,516
Telegrams and transfers	11,671	9,595
Safe boxes rental	9,660	5,888
Swift and ATMs	-	478
Others	141,638	30,132
	<u>529,794</u>	<u>151,609</u>

32. Personnel expenses

	2021	2020
	U.S. \$	U.S. \$
Salaries and related benefits	5,378,558	5,124,971
VAT on salaries	736,511	725,568
Provision for employees' end of service	390,562	384,682
Medical expenses	365,200	312,991
Bank's contribution to provident fund*	230,304	229,904
Employees' vacations	46,497	49,231
Training expenses	14,351	18,693
Others	16,017	17,469
	<u>7,178,000</u>	<u>6,863,509</u>

* The bank monthly deducts 5% from each employee's basic salary, and the bank contributes 10% from the employee's basic salary.

33. Other operating expenses

	2021	2020
	U.S. \$	U.S. \$
Postage, fax and telephone	807,187	775,281
Maintenance	773,675	746,278
Fees, Licenses, and Subscriptions	771,837	859,623
Cash shipping expense	626,544	391,652
Professional and consulting fees	440,108	386,641
Board of Directors bonuses and remunerations	384,000	302,400
Cleaning expenses	368,039	395,683
Palestine Deposit Insurance Corporation fees*	334,140	600,000
Travel and seminars	285,478	294,896
Utilities	267,618	247,979
Stationery and printing	200,756	188,862
Lawsuits provision	173,393	550,000
Advertisements and marketing	118,419	334,839
Rent	117,150	122,817
Donations and charitable work**	92,763	168,875
Insurance	92,576	63,178
Saving accounts prizes	76,705	1,270
Hospitality	54,880	44,415
Fuel and Cars expenses	37,281	43,648
Others	83,320	241,215
	<u>6,105,869</u>	<u>6,759,552</u>

* Banks must accrue an annual subscription fee for Palestine Deposit Insurance Corporation (the Corporation) for the corporation's account at 0.3% of total deposit balance specified under this law No. (7) for the year 2013. On December 1, 2019, the Palestine Deposit Insurance Corporation (PDIC) issued a circular No. (3/2019) regarding reducing the minimum subscription fee to (0.2%-0.8%), where on January 1, 2020 the subscription fee percentage will be calculated at 0.2% of the average total deposit instead of 0.3% of the average total deposit. On October 27, 2020, PDIC issued a circular No. (2/2020) regarding reducing the minimum subscription fee to (0.1%-0.8%), and as at October 1, 2020 the subscription fee percentage will be calculated at 0.1% of the average total deposit instead of 0.2% of the average total deposit. On November 9, 2021, the Corporation issued Circular No. (2/2021) regarding raising the fixed subscription fee rate to 0.2% of the average total subject deposits, as of the beginning of next year.

** The Bank provides donations to local authorities, as a part of the bank's policy to build trust between the different parts of the society. The percentage of donations from the net profit was 2.46% for the year of 2021 compared to 4.59% for the year of 2020.

34. Provision for expected credit losses, Net

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

	2021			Total U.S. \$
	Stage (1)	(Stage (2)	Stage (3)	
	U.S. \$	U.S. \$	U.S. \$	
Balances at banks and financial institutions	81,115	-	-	81,115
Direct credit facilities	102,806	(31,100)	2,632,763	2,704,469
Financial assets at amortized cost	75,161	(1,486)	-	73,675
Indirect credit facilities	788	2,417	-	3,205
	<u>259,870</u>	<u>(30,169)</u>	<u>2,632,763</u>	<u>2,862,464</u>
	2020			Total U.S. \$
	Stage (1)	(Stage (2)	Stage (3)	
	U.S. \$	U.S. \$	U.S. \$	
Balances at banks and financial institutions	(37,223)	-	-	(37,223)
Direct credit facilities	219,046	27,014	1,661,791	1,907,851
Financial assets at amortized cost	(142,953)	18,083	-	(124,870)
Indirect credit facilities	(8,937)	(3,025)	-	(11,962)
	<u>29,933</u>	<u>42,072</u>	<u>1,661,791</u>	<u>1,733,796</u>

35. Palestine Monetary Authority's fines

This item represents fines from the Palestinian Monetary Authority due to the bank's non-compliance with instructions No. (14) of Decree-Law No. (9) of 2010 related to foreign employments during 2021 and the bank's failure to comply with instructions No. (6/2018) related to the security and safety of ATMs during 2020.

36. Basic and diluted earnings per share

	2021	2020
	U.S. \$	U.S. \$
Profit for the year	<u>3,765,682</u>	<u>3,675,302</u>
	Shares	
	78,000,000	78,000,000
	U.S. \$	
	0.048	0.047

37. Cash and cash equivalent

	2021	2020
	U.S. \$	U.S. \$
Cash and balances with Palestine Monetary Authority	205,722,068	156,335,367
Add: Balances at banks and financial institutions due within three months	156,069,796	119,092,143
Less: Deposits at banks and financial institutions due within three months	(60,714,507)	(22,589,057)
Statutory cash reserve requirements	<u>(37,120,663)</u>	<u>(30,623,832)</u>
	<u>263,956,694</u>	<u>222,214,621</u>

38. Related party transactions

Related parties represent major shareholders, the Board of Directors, key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Balances as at December 31, 2021 and transactions with related parties during the year represented as follows:

		2021	2020
	Nature of relationship	U.S. \$	U.S. \$
<u>Consolidated statement of financial position items:</u>			
Direct credit facilities	Executive management and Board of directors	3,782,346	4,969,868
Direct credit facilities	Shareholders	8,143,503	12,476,936
Deposits	Executive management and shareholders	738,844	290,711
Accrued BOD's bonuses	Board of directors	127,000	170,000
<u>Commitments and contingencies</u>			
Unutilized direct credit facilities limits	Top management	21,562	22,390
<u>Consolidated income statement items:</u>			
Received interests	Top management	26,830	21,373
Received interests	Shareholders	528,219	519,850
Paid interests	Top management	5,339	8,400
Rent expenses	Board of directors	54,200	54,189
BOD's bonuses and remunerations	Board of directors	179,945	302,400
Top management's share in salaries and related expenses	Top management	748,411	737,730
Top management's share in End-of-service indemnity	Top management	31,184	55,662

- Direct credit facilities granted to related parties as at December 31, 2021 and 2020 represent 3.76% and 5.92%, respectively, of the net direct credit facilities.
- Direct credit facilities granted to related parties as at December 31, 2021 and 2020 represent 12.72% and 20.33%, respectively, of the bank's capital base.
- Interest rates on direct credit facilities granted to related parties on U.S. \$ and JOD range between 2% to 18%.
- Interest rates on U.S. \$ deposits ranges between 2% to 3.25%.
- Interest rates on Euro deposits range between 1.75% and 2.5%.

- * This item includes Board of Directors (BoD) bonuses and allowances for the BoD meetings attendance. Following are the details of Board of Director's allowances for the BoD meetings attendance for years 2021 and 2020:

	2021	2020
	U.S. \$	U.S. \$
Abd Al Azeez Abu Dayeh	12,000	12,000
Khaleel Naser	12,000	12,000
Jameel Al Mouty	12,000	12,000
Adnan Stetieh	12,000	12,000
Sami Ismael Alsyed	12,000	12,000
Yazan Abu Dayeh	12,000	12,000
Yousef Bazyan	12,000	12,000
Waleed Al njjar	12,000	12,000
Basem Abdulhaleem	12,000	12,000
Hanna Nechola Atyba	12,000	12,000
Tariq Al Haj	12,000	12,000
	<u>132,000</u>	<u>132,000</u>

Below are the details of Board of Directories bonuses paid in 2021:

	2021
	U.S. \$
Abd Al Azeez Abu Dayeh	55,000
Khaleel Naser	30,000
Sami Ismael Alsyed	30,000
Yousef Bazyan	22,000
Tariq Al Haj	10,000
Waleed Al njjar	10,000
Yazan Abu Dayeh	10,000
Hanna Nechola Atyba	9,000
Adnan Stetieh	8,000
Jameel Al Mouty	8,000
Basem Abdulhaleem	8,000
	<u>200,000</u>

Based on article no. (52), paragraph (B) of the Bank's internal bylaw, 5% of the Banks' annual net income shall be provided for as bonus for the BoD members. BoD Bonuses have not been distributed yet.

39. Fair value measurement

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities. Following are the quantitative disclosures for the fair value and hierarchy for the assets as at December 31, 2021 and 2020:

		Measurement of fair value by			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant non-observable inputs (Level 3)
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2021					
		Date of evaluation			
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 6):					
Listed-Global markets	December 31, 2021	8,187,655	8,187,655	-	-
Financial assets at fair value through other comprehensive income (note 8):					
Listed	December 31, 2021	52,293	52,293	-	-
December 31, 2020					
		Date of evaluation			
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 6):					
Listed-Global markets	December 31, 2020	17,414,016	17,414,016	-	-
Financial assets at fair value through other comprehensive income (note 8):					
Listed	December 31, 2020	44,134	44,134	-	-

The bank did not make any transfers between the above levels during the years 2021 and 2020.

Fair value of financial assets and liabilities

The table below represents a comparison between the carrying amounts and fair values of financial instruments as of December 31, 2021 and 2020:

	Book value		Fair value	
	2021	2020	2021	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial assets				
Cash and balances at PMA	205,722,068	156,335,367	205,722,068	156,335,367
Balances at banks and financial institutions	156,051,627	119,080,453	156,051,627	119,080,453
Financial assets at fair value through profit or loss	8,187,655	17,414,016	8,187,655	17,414,016
Direct credit facilities	316,803,700	294,907,755	316,803,700	294,907,755
Financial assets at fair value through other comprehensive income	52,293	44,134	52,293	44,134
Financial assets at amortized cost	17,322,222	13,929,060	17,322,222	13,929,060
Other financial assets	2,620,899	5,876,457	2,620,899	5,876,457
Total assets	706,760,464	607,587,242	706,760,464	607,587,242
Financial liabilities				
Banks and financial institutions' deposits	60,714,507	22,589,057	60,714,507	22,589,057
Istidama loans from Palestine Monetary Authority	1,408,750	750,000	1,408,750	750,000
Customers' deposits	519,410,382	475,203,603	519,410,382	475,203,603
Cash margins	34,134,909	27,456,340	34,134,909	27,456,340
Subsidiary loan	1,000,000	1,000,000	1,000,000	1,000,000
Lease liabilities	1,378,697	1,759,429	1,378,697	1,759,429
Other financial liabilities	8,711,217	5,408,311	8,711,217	5,408,311
Total liabilities	626,758,462	534,166,740	626,758,462	534,166,740

Fair values of cash and balances at PMA, balances at banks and financial institutions, other financial assets, banks and financial institutions' deposits, Istidama loans from Palestine Monetary Authority, customers' deposits, cash margins, lease liability and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

Unlisted financial assets at amortized cost are recognized by discounting the expected cash flows using the prevailing interest rates in the financial markets as at the date of the consolidated financial statements.

Fair value of credit facilities, lease liabilities and subsidiary loan was determined through the study of different variables such as interest rates, risk factors and the debtor's solvency. The fair value of credit facilities approximates their carrying amounts as at December 31, 2021.

40. Concentration of Assets and Liabilities

	2021					
	Inside Palestine	Jordan	Europe	USA	Others	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances at PMA	205,722,068	-	-	-	-	205,722,068
Balances at banks and financial institutions	42,797,123	34,072,363	23,204,070	27,186,950	28,716,485	155,976,991
Financial assets at fair value through profit or loss	-	-	8,187,655	-	-	8,187,655
Direct credit facilities	304,598,141	150,000	5,850,000	-	6,111,581	316,709,722
Financial assets at fair value through other comprehensive income	52,293	-	-	-	-	52,293
Financial assets at amortized cost	697,689	9,159,235	4,572,308	-	2,840,804	17,270,036
Property, plant and equipment	25,353,798	-	-	-	-	25,353,798
Right of use assets	1,344,517	-	-	-	-	1,344,517
Intangible assets	1,243,195	-	-	-	-	1,243,195
Deferred tax assets	1,338,026	-	-	-	-	1,338,026
Other assets	5,306,278	-	-	-	-	5,306,278
Total assets	588,453,128	43,381,598	41,814,033	27,186,950	37,668,870	738,504,579
Istidama loans from Palestine Monetary Authority	1,408,750	-	-	-	-	1,408,750
Banks' and financial institutions' deposits	60,714,507	-	-	-	-	60,714,507
Customers' deposits	503,996,489	15,413,893	-	-	-	519,410,382
Cash margins	34,134,909	-	-	-	-	34,134,909
Subsidiary loan	1,000,000	-	-	-	-	1,000,000
Sundry provisions	3,966,841	-	-	-	-	3,966,841
Lease liabilities	1,378,697	-	-	-	-	1,378,697
Taxes provisions	1,467,568	-	-	-	-	1,467,568
Other liabilities	12,395,721	-	-	-	-	12,395,721
Total liabilities	620,463,482	15,413,893	-	-	-	635,877,375
Paid-in share capital	78,000,000	-	-	-	-	78,000,000
Statutory reserve	10,081,805	-	-	-	-	10,081,805
General banking risks reserve	3,492,926	-	-	-	-	3,492,926
Pro-cyclicality reserve	2,249,383	-	-	-	-	2,249,383
Fair value reserve	(25,119)	-	-	-	-	(25,119)
Asset revaluation surplus	3,212,555	-	-	-	-	3,212,555
Retained earnings	5,615,654	-	-	-	-	5,615,654
Total Equity	102,627,204	-	-	-	-	102,627,204
Total Liabilities and Equity	723,090,686	15,413,893	-	-	-	738,504,579
Off-consolidated balance sheet items:						
Letters of guarantee	18,379,272	-	-	-	-	18,379,272
Letters of credit	1,062,114	-	-	-	-	1,062,114
Acceptances	1,485,220	-	-	-	-	1,485,220
Unutilized direct credit facilities limits	19,035,121	-	-	-	-	19,035,121
	40,461,727	-	-	-	-	40,461,727

2020

	Inside Palestine	Jordan	Europe	USA	Others	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cash and balances at PMA	156,335,367	-	-	-	-	156,335,367
Balances at banks and financial institutions	5,131,820	23,683,122	31,792,561	24,985,237	33,487,713	119,080,453
Financial assets at fair value through profit or loss	-	-	17,414,016	-	-	17,414,016
Direct credit facilities	278,857,885	200,000	-	-	15,849,870	294,907,755
Financial assets at fair value through other comprehensive income	-	44,134	-	-	-	44,134
Financial assets at amortized cost	6,979,673	2,000,000	1,000,000	-	3,949,387	13,929,060
Property, plant and equipment	25,870,557	-	-	-	-	25,870,557
Right of use assets	1,684,976	-	-	-	-	1,684,976
Intangible assets	1,380,951	-	-	-	-	1,380,951
Deferred tax assets	912,117	-	-	-	-	912,117
Other assets	9,623,912	-	-	-	-	9,623,912
Total assets	486,777,258	25,927,256	50,206,577	24,985,237	53,286,970	641,183,298
Istidama loans from Palestine Monetary Authority	750,000	-	-	-	-	750,000
Banks' and financial institutions' deposits	22,589,057	-	-	-	-	22,589,057
Customers' deposits	464,011,949	11,191,654	-	-	-	475,203,603
Cash margins	27,456,340	-	-	-	-	27,456,340
Subsidiary loan	1,000,000	-	-	-	-	1,000,000
Sundry provisions	3,996,201	-	-	-	-	3,996,201
Lease liabilities	1,759,429	-	-	-	-	1,759,429
Taxes provisions	1,109,573	-	-	-	-	1,109,573
Other liabilities	8,465,732	-	-	-	-	8,465,732
Total liabilities	531,138,281	11,191,654	-	-	-	542,329,935
Paid-in share capital	78,000,000	-	-	-	-	78,000,000
Statutory reserve	9,695,787	-	-	-	-	9,695,787
General banking risks reserve	3,357,489	-	-	-	-	3,357,489
Pro-cyclicality reserve	1,824,766	-	-	-	-	1,824,766
Fair value reserve	(33,278)	-	-	-	-	(33,278)
Asset revaluation surplus	3,212,555	-	-	-	-	3,212,555
Retained earnings	2,796,044	-	-	-	-	2,796,044
Total Equity	98,853,363	-	-	-	-	98,853,363
Total Liabilities and Equity	629,991,644	11,191,654	-	-	-	641,183,298
Off-consolidated balance sheet items:						
Letters of guarantee	13,053,725	-	-	-	-	13,053,725
Letters of credit	1,539,968	-	-	-	-	1,539,968
Acceptances	2,133,975	-	-	-	-	2,133,975
Unutilized direct credit facilities limits	15,124,430	-	-	-	-	15,124,430
	31,852,098	-	-	-	-	31,852,098

41. Risks management

The Risk Management Committee, consisting of members from the Board of Directors and the Executive Management, oversees the general framework for risk management for the Bank, which aims to measure, monitor and control credit, operational, liquidity and market risks and any other risks that the Bank may be exposed to in the future. The Bank is working on developing risk management in terms of programs and systems of measurement, control and oversight.

The risks are summarized as follows:

First: Credit Risk

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

1. Exposures to credit risk

	2021 U.S. \$	2020 U.S. \$
Consolidated statement of financial position items		
Balances with Palestine Monetary Authority	68,063,682	57,585,933
Balances at banks and financial institutions	155,976,991	119,080,453
Direct credit facilities		
Retail	121,877,750	117,068,738
Corporates	115,378,152	118,376,452
Public sector	79,453,820	59,462,565
Financial assets at fair value through profit or loss	8,187,655	17,414,016
Financial assets at amortized cost	17,270,036	13,929,060
Other assets	5,306,278	9,623,912
	<u>571,514,364</u>	<u>512,541,129</u>
Off-Consolidated statement of financial position items		
Letters of guarantees	18,379,272	13,053,725
Letters of credit	1,062,114	1,539,968
Acceptances	1,485,220	2,133,975
Unutilized direct credit facilities limits	19,035,121	15,124,430
	<u>39,961,727</u>	<u>31,852,098</u>

2. Credit risk exposure for each risk rating is distributed as follows:

December 31, 2021	Retails	Corporates	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Low risks	107,244,062	89,441,824	79,984,769	276,670,655
Acceptable risks	7,302,116	15,169,831	-	22,471,947
Watch list	77,104	4,901,114	-	4,978,218
Non-performing:				
Substandard	1,109,834	1,529,217	-	2,639,051
Doubtful	3,114,818	301,505	-	3,416,323
loss	8,514,213	7,744,297	-	16,258,510
Total	127,362,147	119,087,788	79,984,769	326,434,704
Suspended interests and commissions	(1,288,090)	(676,714)	-	(1,964,804)
Expected credit losses provision	(4,155,617)	(3,032,922)	(571,639)	(7,760,178)
	<u>121,918,440</u>	<u>115,378,152</u>	<u>79,413,130</u>	<u>316,709,722</u>

December 31, 2020	Retails	Corporates	Government and public sector	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Low risks	99,002,067	98,663,714	59,766,366	257,432,147
Acceptable risks	9,928,686	16,261,161	-	26,189,847
Watch list	191,358	1,683,898	-	1,875,256
Non-performing:				
Substandard	2,007,205	380,994	-	2,388,199
Doubtful	2,290,170	296,650	-	2,586,820
loss	8,132,749	2,670,715	-	10,803,464
Total	121,552,235	119,957,132	59,766,366	301,275,733
Suspended interests and commissions	(974,766)	(185,240)	-	(1,160,006)
Expected credit losses provision	(3,508,731)	(1,395,440)	(303,801)	(5,207,972)
	<u>117,068,738</u>	<u>118,376,452</u>	<u>59,462,565</u>	<u>294,907,755</u>

3. Following is the fair value of collaterals obtained against credit facilities:

<u>December 31, 2021</u>	<u>Retails</u>	<u>Corporates</u>	<u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Collaterals against:			
Low risks	60,175,282	54,606,871	114,782,153
Acceptable risks	4,397,697	5,368,300	9,765,997
Watch list	99,501	1,995,632	2,095,133
Non-performing:			
Substandard	1,985,387	815,625	2,801,012
Doubtful	3,021,564	1,505,672	4,527,236
Loss	5,216,645	5,207,096	10,423,741
Total	74,896,076	69,499,196	144,395,272
Include:			
Cash margins	22,910,159	11,224,750	34,134,909
Real estate	33,500,114	34,073,606	67,573,720
Quoted stocks	1,861,638	17,991,405	19,853,043
Vehicles and equipment	16,624,165	6,209,435	22,833,600
	74,896,076	69,499,196	144,395,272
 <u>December 31, 2020</u>	 <u>Retails</u>	 <u>Corporates</u>	 <u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Collaterals against:			
Low risks	48,553,152	68,946,447	117,499,599
Acceptable risks	6,151,063	8,231,937	14,383,000
Watch list	409,711	35,749	445,460
Non-performing:			
Substandard	1,688,555	20,149	1,708,704
Doubtful	2,463,313	438,200	2,901,513
Loss	4,702,406	188,135	4,890,541
Total	63,968,200	77,860,617	141,828,817
Include:			
Cash margins	19,254,959	8,201,381	27,456,340
Real estate	32,561,056	45,518,623	78,079,679
Quoted stocks	1,915,608	22,578,041	24,493,649
Vehicles and equipment	10,236,577	1,562,572	11,799,149
	63,968,200	77,860,617	141,828,817

4. Following is the fair value of collaterals obtained against gross credit exposures as at December 31, 2021 and 2020:

	Gross credit risk exposure	Fair value of collaterals					Net Exposure after collaterals	ECL
		Cash margins	Real estate	Quoted stocks	Vehicles and equipment	Gross collaterals		
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2021								
Credit exposures relating to items on consolidated statement of financial position:								
Balances at Palestine Monetary Authority	68,063,682	-	-	-	-	-	68,063,682	-
Balances at banks and financial institutions	155,976,991	-	-	-	-	-	155,976,991	92,805
Direct credit facilities:								
Retails	127,362,147	22,910,159	33,500,114	1,861,638	16,624,165	74,896,076	52,466,071	4,155,617
Corporates	119,087,788	11,224,750	34,073,606	17,991,405	6,209,435	69,499,196	49,588,592	3,032,922
Government and public sector	79,984,769	-	-	-	-	-	79,984,769	571,639
Financial assets at amortized cost	17,270,036	-	-	-	-	-	17,270,036	104,372
Other financial assets	5,306,278	-	-	-	-	-	5,306,278	-
Total	573,051,691	34,134,909	67,573,720	19,853,043	22,833,600	144,395,272	428,656,419	7,957,355
Credit exposures of off consolidated balance-sheet items:								
	39,830,990	-	-	-	-	-	39,830,990	39,830,990
	39,830,990	-	-	-	-	-	39,830,990	39,830,990
2020								
Credit exposures relating to items on consolidated statement of financial position:								
Balances at Palestine Monetary Authority	57,585,933	-	-	-	-	-	57,585,933	-
Balances at banks and financial institutions	119,080,453	-	-	-	-	-	119,080,453	11,690
Direct credit facilities:								
Retails	121,552,235	19,254,959	32,561,056	1,915,608	10,236,577	63,968,200	57,584,035	3,508,731
Corporates	119,957,132	8,201,381	45,518,623	22,578,041	1,562,572	77,860,617	42,096,515	1,395,440
Government and public sector	59,766,366	-	-	-	-	-	59,766,366	303,801
Financial assets at amortized cost	13,959,757	-	-	-	-	-	13,959,757	30,697
Other financial assets	9,623,912	-	-	-	-	-	9,623,912	-
Total	501,525,788	27,456,340	78,079,679	24,493,649	11,799,149	141,828,817	359,696,971	5,250,359
Credit exposures of off consolidated balance-sheet items:								
	31,852,098	-	-	-	-	-	31,852,098	12,881
	31,852,098	-	-	-	-	-	31,852,098	12,881

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6. Concentration in risk exposures according to the geographical area is as follows:

	Inside Palestine	Jordan	Israel	Europe	USA	Others	Gross
2021	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balances with Palestine							
Monetary Authority	68,063,682	-	-	-	-	-	68,063,682
Balances at banks and financial institutions	42,797,123	34,072,363	26,407,443	23,204,070	27,186,950	2,309,042	155,976,991
Direct credit facilities	320,434,704	150,000	-	5,850,000	-	-	326,434,704
Financial assets at fair value through profit or loss	-	-	-	8,187,655	-	-	8,187,655
Financial assets at amortized cost	697,689	9,159,235	-	4,572,308	-	2,840,804	17,270,036
Other financial assets	2,620,899	-	-	-	-	-	2,620,899
Total as at December 31, 2021	434,614,097	43,381,598	26,407,443	41,814,033	27,186,950	5,149,846	578,553,967
Off consolidated statement of financial position items:							
Letters of guarantee	18,879,270	-	-	-	-	-	18,879,270
Letters of credit	1,062,114	-	-	-	-	-	1,062,114
Acceptances	1,485,220	-	-	-	-	-	1,485,220
Unutilized direct credit facilities limits	19,035,121	-	-	-	-	-	19,035,121
Total as at December 31, 2021	40,461,725	-	-	-	-	-	40,461,725

	Inside Palestine	Jordan	Israel	Europe	USA	Others	Gross
2020	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balances with Palestine Monetary Authority	57,585,933	-	-	-	-	-	57,585,933
Balances at banks and financial institutions	5,131,820	23,683,122	29,182,172	31,792,561	24,985,237	4,305,541	119,080,453
Direct credit facilities	278,857,885	200,000	-	-	-	15,849,870	294,907,755
Financial assets at fair value through profit or loss	-	-	-	17,414,016	-	-	17,414,016
Financial assets at amortized cost	6,979,673	2,000,000	-	1,000,000	-	3,949,387	13,929,060
Other financial assets	9,623,912	-	-	-	-	-	9,623,912
Total as at December 31, 2020	358,179,223	25,883,122	29,182,172	50,206,577	24,985,237	24,104,798	512,541,129
Off consolidated statement of financial position items:							
Letters of guarantee	13,053,725	-	-	-	-	-	13,053,725
Letters of credit	1,539,968	-	-	-	-	-	1,539,968
Acceptances	2,133,975	-	-	-	-	-	2,133,975
Unutilized direct credit facilities limits	15,124,430	-	-	-	-	-	15,124,430
Total as at December 31, 2020	31,852,098	-	-	-	-	-	31,852,098

7. Concentration of risk exposures according to IFRS (9) Stages as at December 31, 2021 and 2020 is as follows:

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Inside Palestine	389,976,785	30,073,525	14,473,787	434,524,097
Jordan	43,381,598	-	-	43,381,598
Europe	33,148,354	8,665,679	-	41,814,033
USA	27,186,950	-	-	27,186,950
Israel	26,407,443	-	-	26,407,443
Others	5,149,846	-	-	5,149,846
Total	525,250,976	38,739,204	14,473,787	578,463,967
2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Inside Palestine	317,428,714	27,022,061	13,628,448	358,079,223
Jordan	25,883,122	-	-	25,883,122
Europe	50,206,577	-	-	50,206,577
USA	24,985,237	-	-	24,985,237
Israel	29,182,172	-	-	29,182,172
Others	24,204,798	-	-	24,204,798
Total	471,890,620	27,022,061	13,628,448	512,541,129

8. Concentration of risk exposures according to economic sector is as follows:

	2021				2020			
	Financial U.S. \$	Industrial and tourism U.S. \$	Commercial U.S. \$	Real estate U.S. \$	Securities U.S. \$	Government and Public Sector U.S. \$	Others U.S. \$	Total U.S. \$
Balances with Palestine Monetary Authority	68,063,682	-	-	-	-	-	-	68,063,682
Balances at banks and financial institutions	155,976,991	-	-	-	-	-	-	155,976,991
Direct credit facilities	8,281,661	30,886,902	90,560,256	61,221,895	-	79,453,820	56,030,170	326,434,704
Financial assets at fair value through profit or loss	-	-	-	-	8,187,655	-	-	8,187,655
Financial assets at amortized cost	-	-	-	-	17,270,036	-	-	17,270,036
Other financial assets	2,620,899	-	-	-	-	-	-	2,620,899
Total as at December 31, 2021	234,943,233	30,886,902	90,560,256	61,221,895	25,457,691	79,453,820	56,030,170	578,553,967

9. Distribution of risk exposures according to IFRS (9) Stages as at December 31, 2021 and 2020 is as follows:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial	234,853,233	-	-	234,853,233
Securities	16,792,012	8,665,679	-	25,457,691
Real estate	43,586,242	7,984,264	9,651,389	61,221,895
Industrial and tourism	24,908,830	5,412,262	565,810	30,886,902
Commercial	69,626,669	16,676,999	4,256,588	90,560,256
Public sector	79,453,820	-	-	79,453,820
Others	56,030,170	-	-	56,030,170
Total	525,250,976	38,739,204	14,473,787	578,463,967

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial	196,224,723	-	-	196,224,723
Securities	17,595,562	-	-	17,595,562
Real estate	38,105,462	5,422,016	1,353,862	44,881,340
Industrial and tourism	22,579,937	4,892,458	661,511	28,133,906
Commercial	66,087,543	6,620,548	7,865,242	80,573,333
Public sector	63,715,753	-	-	63,715,753
Others	68,459,117	10,133,966	2,823,429	81,316,512
Total	472,768,097	27,068,988	12,704,044	512,441,129

10. Macroeconomic Factors, Forward Looking Information and Multiple Scenarios:

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

Following are the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at January 1, 2021:

Macro-economic variables	Scenario used	Assigned weight for each scenario	Percentage change in macro-economic variables (%)
		(%)	January 1, 2021
<u>GDP</u>	Base case	50	0,05
	Best case	10	0,77
	Worst case	40	0,87
<u>Unemployment rates</u>	Base case	50	0,67
	Best case	10	1,21
	Worst case	40	0,12

Following is the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at December 31, 2021:

Macro-economic variables	Scenario used	Assigned weight for each scenario	Percentage change in macro-economic variables (%)
		(%)	December 31, 2021
<u>GDP</u>	Base case	40	0,03
	Best case	30	0,07
	Worst case	30	(0,01)
<u>Unemployment rates</u>	Base case	40	0,25
	Best case	30	0,26
	Worst case	30	0,25

Second: Market risk

Market risk arises from changes in interest rate risk, equity price risk and foreign currency risk. The Bank's board of Directors sets the limits for acceptable risks. This is periodically monitored by the Bank's management.

1. Interest rate risk

Interest rate risk arises from the effects of changes in interest rates on the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatch or the existence of a gap between assets and liabilities according to their maturities, or re-pricing interest rates in a certain period. The Bank manages those risks by reviewing the interest rate on assets and liabilities through its strategy on risk management.

Interest rates on assets and liabilities are reviewed periodically and the Bank regularly follows up the actual cost of funds and takes appropriate decisions regarding pricing based on the prevailing prices.

The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increase shown below:

Currency	2021		2020	
	Increase in interest rate (basis point)	Interest income sensitivity (consolidated income statement)	Increase in interest rate (basis point)	Interest income sensitivity (consolidated income statement)
U.S. \$	10	(56,137)	10+	7,246

Interest rate re-pricing sensitivity gap

December 31, 2021

	Interest rate re-pricing sensitivity gap						Total
	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest-bearing items	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	205,722,068	205,722,068
Balances at banks and financial institutions	-	82,099,551	-	-	-	73,877,440	155,976,991
Financial assets at fair value through profit or loss	-	-	-	-	-	8,187,655	8,187,655
Direct credit facilities	34,105,045	3,594,457	8,029,543	29,185,303	241,795,374	-	316,709,722
Financial assets at fair value through other comprehensive income	-	-	-	-	-	52,293	52,293
Financial assets at amortized cost	-	-	697,689	-	16,572,347	-	17,270,036
Property, plant and equipment	-	-	-	-	-	25,353,798	25,353,798
Right of use assets	-	-	-	-	-	1,344,517	1,344,517
Intangible assets	-	-	-	-	-	1,243,195	1,243,195
Deferred tax assets	-	-	-	-	-	1,338,026	1,338,026
Other assets	-	-	-	-	-	5,306,278	5,306,278
Total Assets	34,105,045	85,694,008	8,727,232	29,185,303	258,367,721	322,425,270	738,504,579
Liabilities							
Banks and financial institutions' deposits	60,714,507	-	-	-	-	-	60,714,507
Istidama loans from Palestine Monetary Authority	-	-	-	-	1,408,750	-	1,408,750
Customers' deposits	169,102,238	37,455,647	20,556,789	146,755,231	-	145,540,477	519,410,382
Cash margins	11,808,827	8,453,612	2,930,646	8,002,456	2,739,103	200,265	34,134,909
Subsidiary Loan	-	-	-	1,000,000	-	-	1,000,000
Sundry Provisions	-	-	-	-	-	3,966,841	3,966,841
Taxes provisions	-	-	-	-	-	1,467,568	1,467,568
Lease liabilities	-	260,774	297,284	820,639	-	-	1,378,697
Other liabilities	-	-	-	-	-	12,395,721	12,395,721
Total Liabilities	241,625,572	46,170,033	23,784,719	156,578,326	4,147,853	163,570,872	635,877,375
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	10,081,805	10,081,805
General banking risks reserve	-	-	-	-	-	3,492,926	3,492,926
Pro-cyclicality reserve	-	-	-	-	-	2,249,383	2,249,383
Fair value reserve	-	-	-	-	-	(25,119)	(25,119)
Assets revaluation Surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	5,615,654	5,615,654
Total Equity	-	-	-	-	-	102,627,204	102,627,204
Total liabilities and equity	241,625,572	46,170,033	23,784,719	156,578,326	4,147,853	266,198,076	738,504,579
Interest rate re-pricing sensitivity gap	(207,520,527)	39,523,975	(15,057,487)	(127,393,023)	254,219,868	56,227,194	-
Cumulative gap	(207,520,527)	(167,996,552)	(183,054,039)	(310,447,062)	(56,227,194)	-	-

December 31, 2020

	Interest rate re-pricing sensitivity gap						Total
	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest-bearing items	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	156,335,367	156,335,367
Balances at banks and financial institutions	-	-	42,066,505	-	-	77,013,948	119,080,453
Financial assets at fair value through profit or loss	-	-	-	-	-	17,414,016	17,414,016
Direct credit facilities	56,410,221	10,225,441	28,410,225	29,585,887	148,410,256	21,865,725	294,907,755
Financial assets at fair value through other comprehensive income	-	-	-	-	-	44,134	44,134
Financial assets at amortized cost	-	-	980,892	-	12,948,168	-	13,929,060
Property, plant and equipment	-	-	-	-	-	25,970,557	25,970,557
Right of use assets	-	-	-	-	-	1,684,976	1,684,976
Intangible assets	-	-	-	-	-	1,380,951	1,380,951
Deferred tax assets	-	-	-	-	-	912,117	912,117
Other assets	-	-	-	-	-	9,623,912	9,623,912
Total Assets	56,410,221	10,225,441	71,457,622	29,585,887	161,358,424	312,145,703	641,183,298
Liabilities							
Banks and financial institutions' deposits	-	22,547,745	-	-	-	41,312	22,589,057
Istidama loans from Palestine Monetary Authority	-	-	-	-	750,000	-	750,000
Customers' deposits	129,501,673	18,450,997	16,512,489	118,442,059	-	192,296,385	475,203,603
Cash margins	7,810,224	8,015,882	2,671,961	6,410,987	2,410,963	136,323	27,456,340
Subsidiary Loan	-	-	-	1,000,000	-	-	1,000,000
Sundry Provisions	-	-	-	-	-	3,996,201	3,996,201
Taxes provisions	-	-	-	-	-	1,109,573	1,109,573
Lease liabilities	-	-	155,583	177,366	1,426,480	-	1,759,429
Other liabilities	-	-	-	-	-	8,465,732	8,465,732
Total Liabilities	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	206,045,526	542,329,935
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,695,787	9,695,787
General banking risks reserve	-	-	-	-	-	3,357,489	3,357,489
Pro-cyclicality reserve	-	-	-	-	-	1,824,766	1,824,766
Fair value reserve	-	-	-	-	-	(33,278)	(33,278)
Assets revaluation Surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	2,796,044	2,796,044
Total Equity	-	-	-	-	-	98,853,363	98,853,363
Total liabilities and equity	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	304,898,889	641,183,298
Interest rate re-pricing sensitivity gap	(80,901,676)	(38,789,183)	52,117,589	(96,444,525)	156,770,981	7,246,814	-
Cumulative gap	(80,901,676)	(119,690,859)	(67,573,270)	(164,017,795)	(7,246,814)	-	-

2. Equity price change 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:

	Increase in index	2021		Increase in index	2020	
		Effect on income statement	Effect on equity		Effect on income statement	Effect on equity
Index	(%)	U.S. \$	U.S. \$	(%)	U.S. \$	U.S. \$
Foreign markets	10	818,766	-	10	1,741,402	-

3. Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates. The U.S. \$ is the functional currency of the Bank. The Bank's Board of Directors annually sets the acceptable currencies that can take a position in and the limits of the financial position for each currency. And such position is monitored on a daily basis to ensure maintaining the foreign currency position within the established limits, and hedging strategies are used to ensure maintaining the foreign currency position within the set limits.

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

The effect of the decrease in currency rates is expected to be equal and opposite to the effect of the increase stated below:

Currency	2021		2020	
	Increase in currency rate	Effect on consolidated income statement	Increase in currency rate	Effect on consolidated income statement
	(%)	U.S. \$	(%)	U.S. \$
ILS	10+	(231,925)	10+	454,635
Euro	10+	536,254	10+	19,517
JOD	10+	(358,198)	10+	(46,573)
Other currencies	10+	(369)	10+	(118,233)

Following is the net foreign currencies position of the Bank:

	JOD U.S. \$	Euro U.S. \$	ILS U.S. \$	Others U.S. \$	Total U.S. \$
December 31, 2021					
Assets					
Cash and balances with PMA	24,060,817	1,718,703	135,728,815	-	161,508,335
Balances at banks and financial institutions	33,125,059	10,881,543	51,133,127	1,050,128	96,189,857
Direct credit facilities	17,950,754	3,201,529	166,240,378	-	187,392,661
Other assets	364,476	423	1,022,836	-	1,387,735
Total Assets	75,501,106	15,802,198	354,125,156	1,050,128	446,478,588
Liabilities					
Banks and financial institutions' deposits	10,014,104	1,563,292	23,250,202	1,050,104	35,877,702
Customers' deposits	64,854,329	8,320,604	218,002,773	985,548	292,163,254
Cash margins	3,533,249	771,018	15,102,337	-	19,406,604
Other liabilities	644,991	33,807	2,285,181	1,191	2,965,170
Total Liabilities	79,046,673	10,688,721	258,640,493	2,036,843	350,412,730
Net concentration inside the statement of financial position	(3,545,567)	5,113,477	95,484,663	(986,715)	96,065,858
Commitments and contingencies outside the statement of financial position	668,514	2,082,839	17,966,241	-	20,717,594
December 31, 2020					
Total Assets	55,181,860	11,558,852	280,433,580	2,325,270	349,499,562
Total Liabilities	59,839,240	9,607,149	234,970,016	14,148,599	318,565,004
Net concentration inside the statement of financial position	(4,657,380)	1,951,703	45,463,564	(11,823,329)	30,934,558
Commitments and contingencies outside the statement of financial position	231,100	1,371,021	5,999,632	-	7,601,753

Third: Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets and liabilities with liquidity in mind, and monitors future cash flows and liquidity and maintains sufficient amount of cash and cash equivalents and liquid financial assets.

Liquidity management policy at the Bank aims to maximize sources of liquidity at the lowest possible cost. Liquidity management aims to maintain stable sources of funding that is considered reliable with an appropriate cost.

Liquidity is measured, controlled and managed on the basis of normal and emergency conditions. This includes the use of analysis of the maturities of the assets and liabilities and various financial ratios.

The table below summarizes the allocation of liabilities (undiscounted) on the basis of the remaining contractual liability as at the consolidated financial statements date:

	less than a Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2021								
Liabilities:								
Banks and financial institutions' deposits	-	60,916,518	-	-	-	-	-	60,916,518
Customers' deposits	169,150,886	37,466,422	20,574,531	147,008,546	-	-	145,540,477	519,740,862
Cash margins	11,809,464	8,454,979	2,931,594	8,002,887	2,538,975	200,276	200,265	34,138,440
Istidama loans from Palestine Monetary Authority	-	-	-	-	1,479,188	-	-	1,479,188
Subsidiary Loan	-	-	-	-	1,050,000	-	-	1,050,000
Lease liabilities	-	261,861	301,000	886,071	-	-	-	1,448,932
Tax provisions	-	-	-	-	-	-	1,467,568	1,467,568
Other liabilities	-	-	-	-	-	-	12,395,721	12,395,721
Total liabilities	180,960,350	107,099,780	23,807,125	155,897,504	5,068,163	200,276	159,604,031	632,637,229
	less than a Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	from 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31, 2020								
Liabilities:								
Banks and financial institutions' deposits	-	22,622,904	-	-	-	-	41,312	22,664,216
Customers' deposits	321,798,053	18,562,963	16,612,687	119,879,467	-	-	-	476,853,170
Cash margins	7,792,395	8,064,522	2,688,174	6,488,791	-	2,440,222	-	27,474,104
Istidama loans from Palestine Monetary Authority	-	-	-	-	761,250	-	-	761,250
Subsidiary Loan	-	-	-	-	1,045,000	-	-	1,045,000
Sundry provisions	-	-	-	-	-	-	3,996,201	3,996,201
Tax provisions	-	-	-	-	-	-	1,109,573	1,109,573
Lease liabilities	-	-	181,800	264,223	1,212,703	468,573	-	2,127,299
Other liabilities	-	-	-	-	-	7,935,354	530,378	8,465,732
Total liabilities	329,590,448	49,250,389	19,482,661	126,632,481	3,018,953	10,844,149	5,677,464	544,496,545

Liquidity Coverage Ratio (LCR)

During 2019, PMA issued instructions No. (4/2019) in regard to Liquidity Coverage Ratio (LCR) which is considered one of the quantitative corrective tools issued by Basel Committee. LCR should not be lower than 100% in any case, LCR objective is to promote the short-term resilience of the liquidity risk profile of the Bank by ensuring that they have sufficient High-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, and to keep the Bank services from the day of the stress until the Bank initiates corrective procedures in an organized way.

The table below shows the calculation of the liquidity coverage ratio as at December 31, 2021:

Item	Value before discount rates / flows (average) U.S. \$	Value after discount rates / flows (average) U.S. \$
High quality liquid stock		303,125,449
Total cash outflows for High quality liquid assets		
Retail deposits including small corporates:		
A- Stable deposits	92,732,540	4,179,250
B- Less stable deposits	204,543,457	13,079,460
Deposits and other unguaranteed facilities for companies without retail and small business customers:		
Operating deposits and Non-operating deposits	8,153,967	390,037
Non-cancelled credit lines and required liquidity within 30 days	(80,057,682)	4,089,753
Total high-quality liquid assets		224,618,614
Net cash outflows		187,342,582
Liquidity Coverage Ratio (%)		120%

The table below shows the calculation of the liquidity coverage ratio as at December 31, 2020:

Item	Value before discount rates / flows (average) U.S. \$	Value after discount rates / flows (average) U.S. \$
High quality liquid stock		303,125,449
Total cash outflows for High quality liquid assets		
Retail deposits including small corporates:		
A- Stable deposits	92,732,540	4,179,250
B- Less stable deposits	204,543,457	13,079,460
Deposits and other unguaranteed facilities for companies without retail and small business customers:		
Operating deposits and Non-operating deposits	8,153,967	390,037
Non-cancelled credit lines and required liquidity within 30 days	80,057,682	4,089,753
Total high-quality liquid assets	-	197,526,517
Net cash outflows	-	72,792,367
Liquidity Coverage Ratio (%)	-	271%

Net Stable Funding Ratio (NSFR)

PMA issued instructions No. (5/2019) in regard of applying Net Stable Funding Ratio (NSFR), which is considered one of key reforms to promote a more resilient banking sector. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress.

The table below shows the calculation of the mentioned ratio as at December 31, 2021 and 2020:

	2021	2020
	U.S. \$	U.S. \$
Item		
Regulatory capital	92,497,321	76,767,306
Retail deposits and small institutions (stable)	475,172,596	424,146,918
Retail deposits and small institutions (less stable)	91,175,881	73,743,377
Secured and unsecured financing (deposits)	46,680,710	4,370,439
Other funding and deposits	-	-
Other liabilities categories (which are not included in the categories above)	-	-
Gross stable funding available	705,526,508	579,028,040
Claims on central banks	1,004,717	3,003,098
Quoted	-	98,797
High quality liquid assets of the second level / category (A) not mortgaged	760,772	2,757,387
High quality liquid assets of the second level / category (B) not mortgaged	500,763	12,513,207
Loans	171,307,621	146,161,221
Deposits with other financial institutions (authorized to accept deposits) for operational reasons	62,015,172	60,976,443
20% of derivatives on the liability side (which is the negative replacement cost amounts) before subtracting the value guarantee margin	7,617,782	2,999,100
Obligations related to trade finance operations (includes guarantees and letters of credit)	159,180	216,455
Cash, securities, and other assets provided as a margin for the initial value guarantee of derivative contracts and cash or other assets provided as a contribute to the default fund of a central counterparty	465,966	786,505
Financial assets issued or guaranteed by banks and financial institutions	-	-
Non-performing loans	17,875,815	16,061,950
Other total assets	12,841,383	13,857,155
Credit and liquidity financing not subject to cancellation and subject to conditional cancellation	4,367,841	431,716
Off balance sheet exposures not included in the previous categories	2,680,161	1,326,031
Future obligations	-	-
Gross stable financing required	281,597,173	261,189,065
Net Stable Funding Ratio	251%	222%

42. Information on the Bank's business segments

A. Information on the Bank's activities

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

- **Retails banking:** Includes handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and other services.
- **Corporates and institutions:** Include handling corporates' deposits, loans, credit facilities and other financial services for corporate and institutional customers.
- **Treasury:** includes providing trading and treasury services and managing Bank's funds and investments.
- **Other segments:** this contains other items not mentioned above (such as other revenues and legal fees).

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

	Retail	Corporate	Treasury	Other	Total	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	2021 U.S. \$	2020 U.S. \$
Gross revenues	13,030,363	12,821,446	2,481,974	1,754,249	30,088,032	26,647,781
Net ECL provisions	(714,216)	(1,990,939)	(157,309)	-	(2,862,464)	(1,733,796)
Segment results	12,316,147	10,830,507	2,324,665	1,754,249	27,225,568	24,913,985
Unallocated expenses					(22,051,727)	(19,887,805)
Profit before taxes					5,173,841	5,026,180
Taxes expense					(1,408,159)	(1,350,878)
Profit for the year					3,765,682	3,675,302
Other information						
Capital expenditures					1,300,147	988,799
Depreciation and amortization					2,193,762	2,221,127
					2021	2020
Total segment assets	230,596,777	163,649,326	316,350,502	27,907,974	738,504,579	641,183,298
Total segment liabilities	196,799,056	139,663,846	272,979,336	26,435,137	635,877,375	542,329,935

B. Geographical distribution information

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

	Local		Foreign		Total	
	2021 U.S. \$	2020 U.S. \$	2021 U.S. \$	2020 U.S. \$	2021 U.S. \$	2020 U.S. \$
Gross revenues	27,193,862	24,998,108	1,946,765	1,649,673	29,140,627	26,647,781
Capital expenditures	1,300,147	988,799	-	-	1,300,147	988,799
Total assets	552,414,679	474,828,222	186,089,900	166,355,076	738,504,579	641,183,298

43. Maturity analysis of assets and liabilities

The following table depicts the analysis of assets and liabilities according to their maturities as at December 31, 2021:

December 31, 2021	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	205,722,068	205,722,068
Balances at banks and financial institutions	-	82,099,551	-	-	-	73,877,440	155,976,991
Direct credit facilities	-	-	-	-	-	8,187,655	8,187,655
Financial assets at fair value through profit or loss	34,105,045	3,594,457	8,029,543	29,185,303	241,795,374	-	316,709,722
Financial assets at fair value through other comprehensive income	-	-	-	-	-	52,293	52,293
Financial assets at amortized cost	-	-	697,689	-	16,572,347	-	17,270,036
Property, plant and equipment	-	-	-	-	-	25,353,798	25,353,798
Right-of-use assets	-	-	-	-	-	1,344,517	1,344,517
Intangible assets	-	-	-	-	-	1,243,195	1,243,195
Deferred tax assets	-	-	-	-	-	1,338,026	1,338,026
Other assets	-	-	-	-	-	5,306,278	5,306,278
Total Assets	34,105,045	85,694,008	8,727,232	29,185,303	258,367,721	322,425,270	738,504,579
Liabilities							
Istidama loans from Palestine Monetary Authority	-	-	-	-	1,408,750	-	1,408,750
Banks' and financial institutions' deposits	60,714,507	-	-	-	-	-	60,714,507
Customers' deposits	169,102,238	37,455,647	20,556,789	146,755,231	-	145,540,477	519,410,382
Cash margins	11,808,827	8,453,612	2,930,646	8,002,456	2,739,103	200,265	34,134,909
Subsidiary loan	-	-	-	1,000,000	-	-	1,000,000
Sundry provisions	-	-	-	-	-	3,966,841	3,966,841
Lease liabilities	-	-	-	-	-	1,467,568	1,467,568
Taxes provisions	-	260,774	297,284	820,639	-	-	1,378,697
Other liabilities	-	-	-	-	-	12,395,721	12,395,721
Total Liabilities	241,625,572	46,170,033	23,784,719	156,578,326	4,147,853	163,570,872	635,877,375
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	10,081,805	10,081,805
General banking risks reserve	-	-	-	-	-	3,492,926	3,492,926
Pro-cyclicality reserve	-	-	-	-	-	2,249,383	2,249,383
Fair value reserve	-	-	-	-	-	(25,119)	(25,119)
Assets revaluation surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	5,615,654	5,615,654
Total Equity	-	-	-	-	-	102,627,204	102,627,204
Total liabilities and equity	241,625,572	46,170,033	23,784,719	156,578,326	4,147,853	266,198,076	738,504,579
Interest rate re-pricing sensitivity gap	(207,520,527)	39,523,975	(15,057,487)	(127,393,023)	254,219,868	56,227,194	-
Cumulative gap	(207,520,527)	(167,996,552)	(183,054,039)	(310,447,062)	(56,227,194)	-	-

The following table depicts the analysis of assets and liabilities according to their maturities as at December 31, 2020:

December 31, 2020	less than a month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets							
Cash and balances with PMA	-	-	-	-	-	156,335,367	156,335,367
Balances at banks and financial institutions	-	-	42,066,505	-	-	77,013,948	119,080,453
Direct credit facilities	78,275,946	10,225,441	28,410,225	29,585,887	148,410,256	-	294,907,755
Financial assets at fair value through profit or loss	-	-	-	-	-	17,414,016	17,414,016
Financial assets at fair value through other comprehensive income	-	-	-	-	-	44,134	44,134
Financial assets at amortized cost	-	-	980,892	-	12,948,168	-	13,929,060
Property, plant and equipment	-	-	-	-	-	25,970,557	25,970,557
Right-of-use assets	-	-	-	-	-	1,684,976	1,684,976
Intangible assets	-	-	-	-	-	1,380,951	1,380,951
Deferred tax assets	-	-	-	-	-	912,117	912,117
Other assets	-	-	-	-	-	9,523,912	9,523,912
Total Assets	78,275,946	10,225,441	71,457,622	29,585,887	161,358,424	290,279,978	641,183,298
Liabilities							
Istidama loans from Palestine Monetary Authority	-	-	-	-	750,000	-	750,000
Banks' and financial institutions' deposits	-	22,547,745	-	-	-	41,312	22,589,057
Customers' deposits	129,501,673	18,450,997	16,512,489	118,442,059	-	192,296,385	475,203,603
Cash margins	7,810,224	8,015,882	2,671,961	6,410,987	2,410,963	136,323	27,456,340
Subsidiary loan	-	-	-	1,000,000	-	-	1,000,000
Sundry provisions	-	-	-	-	-	3,996,201	3,996,201
Lease liabilities	-	-	155,583	177,366	1,426,480	-	1,759,429
Taxes provisions	-	-	-	-	-	1,109,573	1,109,573
Other liabilities	-	-	-	-	-	8,465,732	8,465,732
Total Liabilities	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	206,045,526	542,329,935
Equity							
Paid-in share capital	-	-	-	-	-	78,000,000	78,000,000
Statutory reserve	-	-	-	-	-	9,695,787	9,695,787
General banking risks reserve	-	-	-	-	-	3,357,489	3,357,489
Pro-cyclicality reserve	-	-	-	-	-	1,824,766	1,824,766
Fair value reserve	-	-	-	-	-	(33,278)	(33,278)
Assets revaluation surplus	-	-	-	-	-	3,212,555	3,212,555
Retained earnings	-	-	-	-	-	2,796,044	2,796,044
Total Equity	-	-	-	-	-	98,853,363	98,853,363
Total liabilities and equity	137,311,897	49,014,624	19,340,033	126,030,412	4,587,443	304,898,889	641,183,298
Interest rate re-pricing sensitivity gap	(59,035,951)	(38,789,183)	52,117,589	(96,444,525)	156,770,981	(14,618,911)	-
Cumulative gap	(59,035,951)	(97,825,134)	(45,707,545)	(142,152,070)	14,618,911	-	-

44. Capital management

The primary objective of the Bank's capital management is to ensure that it maintains adequate capital ratios in order to support its business and maximize shareholders value. The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments to the goals, policies, and actions concerning capital management for current year.

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

	2021			2020		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. \$	%	%	U.S. \$	%	%
Basic capital	88,930,757	12.04	22.49	81,538,073	12.72	21.51
Regulatory capital	93,749,975	12.69	23.71	85,811,118	13.38	22.64

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

	2021
	U.S. \$
Net common shares (CET 1)	88,930,757
Tier 1 of capital	88,930,757
Tier 2 of capital, net	4,819,218
Capital base	93,749,975
Credit risks	345,219,540
Market risks	7,804,122
Operational risks	42,420,998
Total risk weighted assets	395,444,660
	%
Percentage of common stocks (CET 1) to risk weighted assets	22,49
Percentage of Tier 1 of capital to risk weighted assets	22,49
Percentage of Tier 2 of capital to risk weighted assets, net	1,22
Percentage of Tier 1 to assets	12,04
Percentage of regulatory capital to assets	12,69
Capital adequacy ratio	23,71

45. Commitments and contingent liabilities

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

	2021	2020
	U.S. \$	U.S. \$
Letters of guarantees	18,379,272	13,053,725
Letters of credit	1,062,114	1,539,968
Acceptances	1,485,220	2,133,975
Unutilized credit facilities limits	19,035,121	15,124,430
Gross commitments and contingent liabilities	39,961,727	31,852,098
ECL provision	(16,086)	(12,881)
Net commitments and contingent liabilities	39,945,641	31,839,217

The summary of the movement on the gross carrying amount of commitments and contingent liabilities is as follows:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	28,199,239	3,152,859	-	31,352,098
Net change during the year	1,694,197	6,808,752	106,680	8,609,629
Balance end of the year	29,893,436	9,961,611	106,680	39,961,727

The movement of the provision for expected credit losses on commitments and contingent liabilities is as follows:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	11,011	1,870	-	12,881
Net change during the year	788	2,417	-	3,205
Transferred to stage 2	(168)	168	-	-
Balance end of the year	11,631	4,455	-	16,086

The Bank's forward contracts for the sale and purchase of currencies to existing clients as at December 31, 2021 and December 31, 2020 amounted to U.S. \$ 94,603,508 and U.S. \$ 83,116,060, respectively, and they are not disclosed in the commitments and contingent liabilities due to the bank's coverage of the risks of these contracts by concluding corresponding contracts with other banks, in addition to reserving cash margins at a rate of 10% to cover any deviations in prices or failure of the customer to abide by the contract.

46. Lawsuits against the Bank

The number of lawsuits filed against the Bank as at December 31, 2021 and 2020 was U.S \$ 2,767,584 and U.S \$ 7,476,373, respectively, and it is within the normal course of business. The Bank's management and lawyer believe that no additional provision is required other than what was provided for these lawsuits.

During the year 2019, the Bank and as it was notified that a lawsuit filed against the Bank in the American courts by people demanding compensation based on allegations related to the years from 2000 to 2002, the Bank has taken all legal measures for the purpose of rejecting all the allegations against it, which it denies for many reasons, including that the American courts have no jurisdiction to hear the case in addition the allegations lack of legal and factual basis. During the year 2020, the American court accepted the Bank's lawyer's request to dismiss the lawsuit because the court did not have jurisdiction to hear the case. Then, during the year 2020, the litigant appealed the decision issued to request the case's dismissal, and the appeal is still pending by the court. The Bank's management and lawyer believe that, the Bank will not have any obligations for this case.

47. Concentration of risk in geographical area

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

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

Expected credit loss allowance calculation

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

According to IFRS (9), credit facilities and Islamic financing to be transferred from stage (1) to stage (2) if, and only if, there has been a significant increase in credit risk after initial recognition.

The bank evaluated its borrowers for other indications of unwillingness to pay, considering the underlying cause of any financial difficulty, and whether it is likely to be temporary as a consequence of the spread of COVID-19 or as a long-term financial difficulty.

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

Relevant PMA instructions

As a result of the spread of Coronavirus (COVID-19), PMA issued instructions No. (4/2020) on March 15, 2020 related to the PMA's measures to mitigate the effects of the health crisis. The instructions included a set of decisions to instruct the banks to postpone customers installments for four months, and six months for the tourism sector. Banks were prohibited from collecting any additional fees, commissions or additional interest on the differed installments. In accordance with the instructions, the Bank postponed installments of its customers. This was accompanied by some measures taken by the Palestinian government and Palestine Monetary Authority (which had an impact on the banking sector and the Bank's activities), such as not including customers with returned checks for financial reasons on the list of customers who had failed to pay and not charged them with the resulting commissions.

Additionally, On July 22, 2020, PMA issued instructions No. (27/2020) regarding mitigating the effects of the financial crisis and the Coronavirus crisis, under which it included a set of decisions to determine the necessary procedures and measures to mitigate the economic effects of the crisis and enabling the economy to overcome it.

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

Istidama Program Loans

In accordance with the PMA instruction No. (22/2020) to mitigate the economic effect of Coronavirus crisis (COVID-19), the Bank granted loans through PMA support program, to support small and medium enterprises companies and to enable them to maintain their businesses and employees through financing program with an interest rate of 3% based on the instructions of PMA (Istidama Program). The balance of facilities under Istidama program amounted to \$1,408,750 as of December 31, 2021.

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