BANK OF PALESTINE P.L.C

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

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Report on review of interim financial information
To the Chairman and Members of the Board of Directors of Bank of Palestine P.L.C

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Bank of Palestine P.L.C and its subsidiaries. (the “Bank”) as at September 30, 2021 which comprise the interim condensed consolidated statement of financial position, as at September 30, 2021 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income for the three and nine month then ended , interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with the IAS (34) “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with the IAS (34).

Other matters

The accompanying interim condensed consolidated financial statements represent the first reviewed financial statements by an independent auditor for the three-month and nine-month period ended September 30. Accordingly, no review report was issued on the comparative figures stated in the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows.

Ernst & Young – Middle East
License # 206/2012

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License # 2003/105

October 31, 2021
Ramallah - Palestine

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at September 30, 2021

	Note	September 30, 2021	December 31, 2020
		(Unaudited)	(Audited)
		U.S. $	U.S. $
ASSETS			
Cash and balances with Palestine Monetary Authority	4	1,888,200,505	1,323,410,056
Balances and investments at banks and financial institutions	5	621,644,509	747,858,727
Financial assets at fair value through profit or loss	6	22,622,204	18,735,305
Direct credit facilities and Islamic financing	7	3,397,094,012	3,266,748,588
Financial assets at fair value through other comprehensive income	8	27,347,444	28,559,024
Financial assets at amortized cost	9	227,396,507	205,499,230
Investment in associates and a joint venture		9,765,638	5,946,380
Investment properties		26,106,919	25,884,919
Property, plant and equipment and right of use assets		114,942,559	121,430,377
Projects in progress		2,787,726	2,680,297
Intangible assets		14,598,706	15,428,395
Other assets	10	43,212,175	47,628,690
Total assets		6,395,718,904	5,809,809,988
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority's deposits	11	213,964,634	168,347,302
Banks and financial institutions' deposits	12	128,227,963	82,088,201
Customers' deposits	13	4,975,745,185	4,580,935,374
Cash margins	14	271,907,918	253,088,880
Subordinated loan		75,000,000	75,000,000
Loans and borrowings	15	39,507,500	27,636,180
Istidama loans from Palestine Monetary Authority		14,592,659	9,134,926
Lease liabilities		31,678,994	33,453,914
Sundry provisions	16	50,482,217	48,851,375
Taxes provisions	17	13,244,497	4,610,652
Other liabilities	18	97,303,331	93,142,513
Total liabilities		5,911,654,898	5,376,289,317
Equity			
Paid-in share capital	1	217,433,527	208,080,000
Additional paid-in capital	19	29,575,688	24,848,415
Statutory reserve	20	56,970,341	56,970,341
Voluntarily reserve	20	246,361	246,361
General banking risks reserve	20	10,311,877	10,311,877
Pro-cyclicality reserve	20	40,000,000	40,000,000
Fair value reserve	8	(2,262,128)	(4,999,792)
Retained earnings		72,751,617	43,763,159
Total equity holders of the Bank		425,027,283	379,220,361
Non-controlling interests		59,036,723	54,300,310
Total equity		484,064,006	433,520,671
Total liabilities and equity		6,395,718,904	5,809,809,988

The accompanying notes from 1 to 34 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the three-month and nine-month periods ended September 30, 2021

	Note	For the three- month period ended September 30		For the nine- month period ended September 30	
		2021	2020	2021	2020
		Unaudited		Unaudited	
		U.S. $	U.S. $	U.S. $	U.S. $
Interest income		42,637,294	40,298,067	126,022,196	119,790,223
Interest expense		(9,211,881)	(10,336,725)	(30,244,103)	(31,191,463)
Net interest income		33,425,413	29,961,342	95,778,093	88,598,760
Net financing and investment income		13,594,126	10,301,817	35,184,868	24,966,904
Net commissions income		12,065,090	10,218,024	33,824,627	33,796,439
Net interest, commissions financing, and investment income		59,084,629	50,481,183	164,787,588	147,362,103
Foreign currencies gains		5,500,044	3,848,682	16,265,112	11,206,460
Net gains from financial assets portfolio	22	1,371,479	(525,255)	6,407,742	11,224
Bank's share of results of associates and a joint venture		148,814	142,206	318,194	337,458
Other revenues		993,200	2,100,951	6,764,411	6,290,194
Gross profit		67,098,166	56,047,767	194,543,047	165,207,439
Expenses					
Personnel expenses		(20,045,782)	(17,507,057)	(59,342,181)	(55,524,177)
Other operating expenses		(13,611,745)	(11,839,633)	(37,168,835)	(36,526,639)
Depreciation and amortization		(4,318,703)	(4,729,334)	(13,414,258)	(14,094,014)
Provision for expected credit losses, net	24	(6,059,061)	(11,714,890)	(17,711,711)	(30,082,971)
Credit facilities not previously provided for and written off		(372,697)	(290,448)	(1,494,988)	(820,740)
Palestine Monetary Authority's fines	23	-	-	-	(22,330)
Total expenses		(44,407,988)	(46,081,362)	(129,131,973)	(137,070,871)
Profit before taxes		22,690,178	9,966,405	65,411,074	28,136,568
Taxes expense	17	(6,844,128)	(3,937,270)	(20,618,511)	(13,653,745)
Profit for the period		15,846,050	6,029,135	44,792,563	14,482,823
Attributable to:					
Equity holders of the Bank		13,287,816	5,017,170	39,358,510	13,222,875
Non-controlling interests		2,558,234	1,011,965	5,434,053	1,259,948
		15,846,050	6,029,135	44,792,563	14,482,823
Basic and diluted earnings per share from profit of the period attributable to equity holders of the bank	25	0.06	0.02	0.19	0.06

The accompanying notes from 1 to 34 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three-month and nine-month periods ended September 30, 2021

	For the three- month period ended September 30		For the nine- month period ended September 30	
	2021	2020	2021	2020
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Profit for the period	15,846,050	6,029,135	44,792,563	14,482,823
Other comprehensive income:				
Items not to be reclassified to the consolidated income statement in subsequent periods:				
Change in the fair value of financial assets	(422,857)	(521,951)	3,272,059	(1,922,419)
Other comprehensive income items for the period	(422,857)	(521,951)	3,272,059	(1,922,419)
Total comprehensive income for the period	15,423,193	5,507,184	48,064,622	12,560,404
Attributable to:				
Equity holders of the Bank	12,743,136	4,667,008	42,126,891	11,684,629
Non-controlling Interests	2,680,057	840,176	5,937,731	875,775
	15,423,193	5,507,184	48,064,622	12,560,404

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine-month period ended September 30, 2021

			Reserves								
	Paid-in share capital	Additional paid-in capital	Statutory	Voluntarily	General banking risks	Pro-cyclicality	Fair value	Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
September 30, 2021	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	208,080,000	24,848,415	56,970,341	246,361	10,311,877	40,000,000	(4,999,792)	43,763,159	379,220,361	54,300,310	433,520,671
Profit for the period	-	-	-	-	-	-	-	39,358,510	39,358,510	5,434,053	44,792,563
Other comprehensive income items	-	-	-	-	-	-	2,768,381	-	2,768,381	503,678	3,272,059
Total comprehensive income for the period	-	-	-	-	-	-	2,768,381	39,358,510	42,126,891	5,937,731	48,064,622
Transfer of fair value reserve of financial assets through other comprehensive income (note 8)	-	-	-	-	-	-	(30,717)	30,717	-	28,286	28,286
Fractions of stocks distributed	-	-	-	-	-	-	-	3,231	3,231	-	3,231
Increase in the bank's paid-in capital (note19)	7,272,727	4,727,273	-	-	-	-	-	-	12,000,000	-	12,000,000
Stock dividends (note 21)	2,080,800	-	-	-	-	-	-	(2,080,800)	-	-	-
Cash dividends (note 21)	-	-	-	-	-	-	-	(8,323,200)	(8,323,200)	(1,229,604)	(9,552,804)
Balance, end of the period (unaudited)	217,433,527	29,575,688	56,970,341	246,361	10,311,877	40,000,000	(2,262,128)	72,751,617	425,027,283	59,036,723	484,064,006

			Reserves								
	Paid-in share capital	Additional paid-in capital	Statutory	Voluntarily	General banking risks	Pro-cyclicality	Fair value	Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
September 30, 2020	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	204,000,000	24,848,415	54,982,241	246,361	9,749,949	40,000,000	(3,854,902)	46,828,335	376,800,399	53,863,794	430,664,193
Profit for the period	-	-	-	-	-	-	-	13,222,875	13,222,875	1,259,948	14,482,823
Other comprehensive income items	-	-	-	-	-	-	(1,538,246)	-	(1,538,246)	(384,173)	(1,922,419)
Total comprehensive income for the period	-	-	-	-	-	-	(1,538,246)	13,222,875	11,684,629	875,775	12,560,404
Transfer to reserves	-	-	-	-	1,411,926	-	-	(1,411,926)	-	-	-
Fractions of stocks distributed	-	-	-	-	-	-	-	3,840	3,840	-	3,840
Stock dividends (note 21)	4,080,000	-	-	-	-	-	-	(4,080,000)	-	-	-
Cash dividends (note 21)	-	-	-	-	-	-	-	(16,320,000)	(16,320,000)	(1,917,511)	(18,237,511)
Balance, end of the period (unaudited)	208,080,000	24,848,415	54,982,241	246,361	11,161,875	40,000,000	(5,393,148)	38,243,124	372,168,868	52,822,058	424,990,926

The accompanying notes from 1 to 34 are an integral part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine-month period ended September 30, 2021

	Note	For the nine-month period ended September 30 2021 Unaudited U.S. $	2020 Unaudited U.S. $
Operating activities			
Profit for the period before taxes		65,411,074	28,136,568
Adjustments for:			
Depreciation and amortization		13,414,258	14,094,014
Impairment on projects in progress		234,480	-
Net gains from financial assets portfolio		(6,846,375)	(324,253)
Lease liabilities financing costs		714,509	531,470
Provision for expected credit losses, net		17,711,711	30,082,971
Losses (gains) from revaluation of deposit at below-market interest rate		1,252,066	(1,428,011)
Modification (gains) Losses of Islamic financing of a subsidiary		(2,949,882)	3,364,410
Sundry provisions		7,748,781	1,918,614
Bank's share of results of associates and joint venture		(318,194)	(337,458)
Losses on disposal of property, plant and equipment		122,148	5,299
Credit facilities not previously provided for and written off		1,494,988	820,740
Other non-cash items		(42,233)	-
		97,947,331	76,864,364
Changes in assets and liabilities:			
Direct credit facilities and Islamic financing		(146,099,537)	(230,462,914)
Statutory cash reserve		(52,205,800)	(29,944,471)
Other assets		4,416,515	(53,867,830)
Customers' deposits		394,809,811	339,588,298
Istidama loans from Palestine Monetary Authority		5,457,733	-
Cash margins		18,819,038	(11,152,863)
Other liabilities		4,143,381	61,847,447
Net cash flows from operating activities before taxes and sundry provisions		327,288,472	152,872,031
Taxes paid		(11,984,666)	(14,481,255)
Sundry provisions, paid		(6,117,939)	-
Net cash flows from operating activities		309,185,867	138,390,776
Investing activities			
Change in financial assets at fair value through profit and loss and other comprehensive income		4,446,471	(624,040)
Change in restricted cash balances		(11,471,677)	25,109,901
Purchase of financial assets at amortized cost		(35,352,111)	73,267,126
Maturated financial assets at amortized cost		13,000,000	-
Deposits at banks and financial institutions maturing in more than three months		(14,988,717)	(7,310,751)
Investments at Islamic banks maturing in more than three months		-	20,000,000
Stocks dividends received		3,527,176	1,714,336
Investments in associates and joint venture		(4,000,000)	-
Additions on intangible assets		(743,974)	(1,708,867)
Additions on projects in progress		(1,476,415)	(4,681,222)
Purchase of property, plant and equipment		(3,105,402)	(4,022,225)
Sale of property, plant and equipment		72,322	25,690
Sale of investment properties		225,000	-
Purchase of investment properties		(447,000)	(134,000)
Net cash flows (used in) from investing activities		(50,314,327)	101,635,948
Financing activities			
Lease liabilities paid		(3,798,850)	(3,632,086)
Loans and borrowings		11,871,320	15,173,686
Increase in the bank's paid-in capital		12,000,000	-
Fractions of stock dividends		3,231	3,840
Cash dividends paid		(9,598,151)	(17,359,320)
Net cash flows from (used in) financing activities		10,477,550	(5,813,880)
Increase in cash and cash equivalents		269,349,090	234,212,844
Cash and cash equivalents, beginning of the period		1,342,579,767	830,266,091
Cash and cash equivalents, end of the period	26	1,611,928,857	1,064,478,935
Interest expense paid		28,670,325	24,762,871
Interest revenue received		126,651,161	119,892,710

The accompanying notes from 1 to 34 are an integral part of these interim condensed consolidated financial statements

1. General

Bank of Palestine P.L.C (the Bank) was established in 1960 and was registered with the companies' controller office of the Palestinian National Authority in Gaza as a public shareholding limited company under registration no, (563200096) in accordance with Companies' Law of 1929 and its subsequent amendments.

Following the decision of the extraordinary general assembly during its meeting held on March 29, 2018, the Bank's authorized capital was increased from 200 million shares to 250 million shares at U.S. $ 1 par value per share from. During its meeting held on March 26, 2020, the general assembly approved increasing the bank's paid-in share capital by U.S. $ 4,080,000 through stock dividends. During its meeting held on March 31, 2021, the general assembly approved increasing the bank's paid-in share capital by U.S. $ 2,080,800 through stock dividends. In addition, the Bank signed an agreement during 2021 with the French Proparco Corporation, through which the French Development Agency (FISEA) a subsidiary of the Proparco Corporation invested an amount of U.S. $7,272,727 in the Bank through a private issuance. Hence the bank's Paid-in share capital amounted to U.S $217,433,527 and U.S. $ 208,080,000 as at September 30, 2021 and December 31, 2020, respectively.

The Bank has been classified as a bank of regulatory importance at the local level, according to the general framework of banks of regulatory importance as approved by the Board of Directors of the Palestine Monetary Authority (PMA).

The Bank carries out all of its banking activities which include opening current account, letter of credit, accepting deposits and lending money through its (29) branches and (44) offices located in Palestine and an electronic office and a mobile office; In addition, PMA authorized the opening of two representation offices; one in the City of Dubai in United Arab Emirates and another one in Chile. The number of branches of Arab Islamic Bank (a subsidiary) was (18) branches in addition to (3) offices.

The Bank's personnel reached (1,747) as at September 30, 2021.The number of employees of subsidiaries are (639).

The interim condensed consolidated financial statements were authorized for issuance by the Bank's Board of Directors during its meeting No. (7/2021) on October 31, 2021.

2. Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at September 30, 2021.

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

	Country of incorporation and operations	Ownership %		Subsidiaries 'subscribed capital U.S. $	
		September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Arab Islamic Bank*	Palestine	52,06	52,06	91,719,252	88,469,252
Al-Wasata Company	Palestine	100	100	5,000,000	5,000,000
PalPay Company**	Palestine	85	85	1,500,000	1,500,000
Investment 2000 Company	Palestine	100	100	100,000	100,000

* The general assembly of Arab Islamic Bank (a subsidiary) decided in its meeting held on March 17, 2021, to capitalize the amount of $3,250,000 from retained earnings and added it to the capital and distribute it as a stock dividend to shareholders.

** In compliance with the instructions of the Palestinian Monetary Authority No. (2) of 2021 regarding the amendment of Instructions No. (1) of 2018 regarding licensing of payment services companies, the bank will, by the end of 2021, reduce its shareholding in PalPay (the company) so that it does not exceed 49% of the company's capital. In the opinion of the Bank's management, the reduction of the shareholding percentage will not have an impact on the Bank's ability to control the subsidiary.

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

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

3. Basis of preparation and changes in accounting Policies

Basis of preparation

The interim condensed consolidated financial statements for the nine-month period ended September 30, 2021 have been prepared in accordance with the International Financial Reporting Standards No. (34) "Interim Financial Reporting".

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

These financial statements represent first reviewed financial statements for the nine month-period ended September 30, 2021.

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

The interim condensed consolidated financial statements do not include all the information and disclosures required for the preparation of the annual consolidated financial statement and should be read in conjunction with the Bank's annual consolidated financial statements as of December 31, 2020. Accordingly, the results of operation of the nine-month period ended on September 30, 2021 are not necessarily an indication of the expected annual results as of December 31, 2021.

Changes in accounting polices

The accounting policies used in preparing the Bank's interim condensed financial statements are identical to those used to prepare the financial statements for the year ended on December 31, 2020, except for the Bank's application of some amendments effective as of January 1, 2021:

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:

- A practical expedient 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

- The exemptions require the Bank to amend the definitions used in documenting the hedging operations and describing the hedging instrument with the continuation of the hedging relationship of the Bank when replacing the reference used to determine the current interest rate with the refence.
- The Bank may use a contractually unspecified interest rate, to hedge the risk of changes in fair value or interest rates if the interest rate risks are identified separately.

The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Bank's future transactions or arrangements.

Use of estimates

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

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

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

Provision for expected credit losses (ECL):

The determination of provision for ECL on credit facilities and Islamic financing requires the Bank's management to make 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, taking into consideration future measurement information for ECL.

- 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 customers and portfolios for the credit rating stages, stage (1) (initial recognition), stage (2) (credit quality decline) and stage (3) (credit impairment).

- Modification of facilities:

The Bank sometimes makes amendments to the terms of the facilities contracts in response to the customer's request, who has financial difficulties instead of recovering or collecting guarantees. The Bank amends the terms of the facility as a result of the emergence or existence of financial difficulties of the customer. Terms may include extending payments or agreeing on new facility terms. The Bank's policy is to monitor the scheduled facilities to help ensure that future payments continue to occur. The Bank's decision to adjust the rating between stage (2) and stage (3) is made on a case-by-case basis.

- Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios:

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

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

- 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 expected credit losses, 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.

<u>Basis of consolidation of the interim condensed financial statements</u>

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at September 30, 2021. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

4. Cash and balances with Palestine Monetary Authority

This item comprises the following:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Cash on hand*	1,343,765,004	808,067,767
Balances with Palestine Monetary Authority:		
Current and demand accounts	15,851,412	58,710,122
Swap deposits maturing within 3 months or less	65,937,941	46,191,819
Statutory cash reserve	462,646,148	410,440,348
	1,888,200,505	1,323,410,056

* This item includes amounts held with Money Transportation Companies for the purposes of feeding the bank's ATMs which September 30, 2021 and December 31, 2020, respectively.

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

5. Balances and investments at banks and financial institutions

This item comprises the following:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Local banks and financial institutions:		
Current accounts	10,397,034	485,479
Swap deposits	10,000,000	-
	20,397,034	485,479
Foreign banks and financial institutions:		
Current and demand accounts	193,987,007	326,802,075
Deposits maturing within 3 months or less	369,767,283	408,122,624
Deposits maturing after 3 months	24,156,559	9,167,842
Swap deposits	10,000,000	-
	597,910,849	744,092,541
Investments at Islamic banks:		
Investments maturing within 3 months	2,328,036	2,328,036
Investments maturing after 3 months	4,062,368	4,062,368
	6,390,404	6,390,404
	624,698,287	750,968,424
Less: Provision for expected credit losses	(3,053,778)	(3,109,697)
	621,644,509	747,858,727

Restricted balances amounted to U.S.$ 87,736,318 and $ 76,264,641 as at September 30, 2021 and December 31, 2020, respectively.

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	733,106,822	15,561,602	2,300,000	750,968,424
Net change during the period	(126,270,137)	-	-	(126,270,137)
Transfer to stage (1)	13,709,956	(13,709,956)	-	-
Balance, end of the period	620,546,641	1,851,646	2,300,000	624,698,287

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	395,400,199	872,820	2,300,000	398,573,019
Net change during the year	352,395,405	-	-	352,395,405
Transfer to stage (2)	(14,688,782)	14,688,782	-	-
Balance, end of the year	733,106,822	15,561,602	2,300,000	750,968,424

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	702,444	107,253	2,300,000	3,109,697
Net remeasurement of expected credit loss for the period	35,662	(91,581)	-	(55,919)
Transfer to stage (1)	2,910	(2,910)	-	-
Balance, end of the period	741,016	12,762	2,300,000	3,053,778

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	265,005	1,259	2,300,000	2,566,264
Net remeasurement of expected credit loss for the period	543,433	-	-	543,433
Transfers to stage (2)	(105,994)	105,994	-	-
Balance, end of the year	702,444	107,253	2,300,000	3,109,697

Non-interest or profits bearing balances at banks and financial institutions as at September 30, 2021 and December 31, 2020 amounted to U.S.$ 204,375,031 and U.S. $ 327,287,554, respectively.

6. Financial assets at fair value through profit or loss

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
shares quoted in Palestine securities exchange	12,943,646	9,738,538
shares quoted in Foreign Financial Markets	764,333	638,427
Investments in Financial Portfolio	3,914,225	3,358,340
Unquoted foreign shares	5,000,000	5,000,000
	22,622,204	18,735,305

7. Direct credit facilities and Islamic financing

This item comprises the following:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Retail		
Loans	695,244,287	665,677,207
Overdraft accounts	2,212,797	2,438,684
Credit cards	27,553,290	26,694,615
Overdrawn	57,094,705	57,628,922
Islamic financing	270,316,437	274,538,884
Corporate and institutions		
Loans	946,264,121	922,183,267
Overdraft accounts	179,668,160	160,089,586
Overdrawn	12,221,579	10,478,676
Islamic financing	546,682,851	508,504,002
Public sector		
Loans	401,756,509	360,644,691
Overdraft accounts	250,433,790	281,291,287
Islamic financing	194,139,028	167,703,598
	3,583,587,554	3,437,873,419
Suspended interests, commissions and profits	(21,035,924)	(20,413,098)
Provision for expected credit losses	(165,457,618)	(150,711,733)
	3,397,094,012	3,266,748,588

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

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Balance, beginning of the period/ year	20,413,098	16,656,102
Suspended interest and profits during the period/ year	4,380,628	8,257,741
Suspended interest and profits transferred to revenues during the period/year	(2,630,085)	(2,922,628)
Suspended interest and profits related to credit facilities and Islamic financing being defaulted for more than 6 years	(703,252)	(1,367,928)
Suspended interest written off	(424,995)	(140,000)
Currency exchange variance	530	(70,189)
Balance, end of the period/ year	21,035,924	20,413,098

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	2,300,090,967	943,826,920	193,955,532	3,437,873,419
Net change during the period	291,120,475	(131,211,973)	(11,751,192)	148,157,310
Transfers to stage (1)	181,021,343	(178,572,832)	(2,448,511)	-
Transfers to stage (2)	(253,283,780)	259,159,286	(5,875,506)	-
Transfers to stage (3)	(9,141,711)	(13,718,509)	22,860,220	-
Written off facilities	-	-	(2,443,175)	(2,443,175)
Balance, end of the period	2,509,807,294	879,482,892	194,297,368	3,583,587,554

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,328,600,967	618,647,852	166,375,015	3,113,623,834
Net change during the year	176,718,468	155,343,770	(5,902,084)	326,160,154
Transfers to stage (1)	94,085,232	(88,113,506)	(5,971,726)	-
Transfers to stage (2)	(272,726,483)	281,071,283	(8,344,800)	-
Transfers to stage (3)	(26,587,217)	(23,122,479)	49,709,696	-
Written off facilities	-	-	(1,910,569)	(1,910,569)
Balance, end of the year	2,300,090,967	943,826,920	193,955,532	3,437,873,419

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	23,035,315	29,151,993	98,524,425	150,711,733
Transfers to stage (1)	645,120	(600,394)	(44,726)	-
Transfers to stage (2)	(6,482,724)	6,715,182	(232,458)	-
Transfers to stage (3)	(2,419,872)	(2,298,324)	4,718,196	-
Additions of expected credit loss for the period	15,565,521	7,910,909	14,813,437	38,289,867
Recovery of expected credit loss during the period	(5,014,515)	(5,747,244)	(10,278,096)	(21,039,855)
Recovered from written off credit facilities	-	-	(19,416)	(19,416)
Defaulted direct credit facilities and Islamic financing for more than 6 years	-	-	(2,443,175)	(2,443,175)
Foreign currency exchange differences	(53,624)	-	12,088	(41,536)
Balance, end of the period	25,275,221	35,132,122	105,050,275	165,457,618

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	13,072,696	25,252,147	75,257,662	113,582,505
Transfers to stage (1)	1,279,190	(487,036)	(792,154)	-
Transfers to stage (2)	(1,869,700)	2,279,381	(409,681)	-
Transfers to stage (3)	(127,877)	(1,057,062)	1,184,939	-
Net expected credit loss for the year	13,635,825	9,954,446	34,221,769	57,812,040
Recovery of expected credit loss during the year	(2,954,819)	(6,789,883)	(9,098,698)	(18,843,400)
Recovered from written off credit facilities	-	-	(1,996,162)	(1,996,162)
Defaulted direct credit facilities and Islamic financing for more than 6 years	-	-	(1,773)	(1,773)
Foreign currency exchange differences	-	-	158,523	158,523
Balance, end of the year	23,035,315	29,151,993	98,524,425	150,711,733

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

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Balance, beginning of the period/ year	15,478,580	13,845,732
Additions	2,443,175	1,996,162
Recovered	(456,818)	(320,698)
written off provision	(341,003)	(15,767)
Currency variances	(50,298)	(26,849)
Balance, end of the period/ year	17,073,636	15,478,580

8. Financial assets at fair value through other comprehensive income

	Quoted shares	Unquoted financial assets	Total
	U.S. $	U.S. $	U.S. $
September 30, 2021			
Local	3,870,193	3,507,687	7,377,880
Foreign	18,489,406	1,480,158	19,969,564
	22,359,599	4,987,845	27,347,444
December 31, 2020			
Local	7,483,575	3,450,180	10,933,755
Foreign	16,077,517	1,547,752	17,625,269
	23,561,092	4,997,932	28,559,024

The movement on fair value reserve is as follows:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Balance, beginning of the period/ year	(4,999,792)	(3,854,902)
Change in fair value through other comprehensive income items	2,768,381	(1,144,890)
Gains on sale of financial assets at fair value through comprehensive income are recognized in retained earnings	(30,717)	-
Balance, end of the period/ year	(2,262,128)	(4,999,792)

9. Financial assets at amortized cost

Financial assets at amortized cost comprise of the following:

	Treasury bills	Quoted financial Bonds	Unquoted financial bonds	Islamic Sukuk	Provision for expected credit loss	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
September 30, 2021						
Local	43,064,861	-	12,500,000	-	(824,361)	54,740,500
Foreign	85,551,933	56,255,178	-	32,763,425	(1,914,529)	172,656,007
	128,616,794	56,255,178	12,500,000	32,763,425	(2,738,890)	227,396,507
December 31, 2020						
Local	30,138,004	-	8,000,000	-	(526,487)	37,611,517
Foreign	76,803,680	62,328,177	-	30,513,425	(1,757,569)	167,887,713
	106,941,684	62,328,177	8,000,000	30,513,425	(2,284,056)	205,499,230

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	180,446,295	26,073,566	1,263,425	207,783,286
Net change during the period	27,863,239	(5,511,128)	-	22,352,111
Transfers to stage (1)	2,638,871	(2,638,871)	-	-
Transfers to stage (2)	(6,333,802)	6,333,802	-	-
Balance, end of the period	204,614,603	24,257,369	1,263,425	230,135,397

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	199,695,219	44,130,341	1,263,425	245,088,985
Net change during the year	(14,731,458)	(22,574,241)	-	(37,305,699)
Transfers to stage (1)	2,638,871	(2,638,871)	-	-
Transfers to stage (2)	(7,156,337)	7,156,337	-	-
Balance, end of the year	180,446,295	26,073,566	1,263,425	207,783,286

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	952,904	67,727	1,263,425	2,284,056
Net remeasurement of expected credit loss for the period	446,176	8,658	-	454,834
Transfers to stage (1)	155	(155)	-	-
Transfers to stage (2)	(4,771)	4,771	-	-
Balance, end of the period	1,394,464	81,001	1,263,425	2,738,890

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	770,578	310,299	1,263,425	2,344,302
Net remeasurement of expected credit loss for the period	199,294	(259,540)	-	(60,246)
Transfers to stage (1)	72	(72)	-	-
Transfers to stage (2)	(17,040)	17,040	-	-
Balance, end of the year	952,904	67,727	1,263,425	2,284,056

10. Other assets

This item comprises the following:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Account receivable, advances and temporary expenses	13,254,660	9,815,677
In-advance payments	8,725,902	6,954,133
Accrued interest and commissions not received	8,625,846	9,630,871
Clearing checks	6,312,080	12,571,202
Stationery, printing materials and equipment	3,716,887	2,160,781
Assets obtained by the Bank by calling on collaterals	779,869	1,867,160
Other debit balances	1,796,931	4,628,866
	43,212,175	47,628,690

11. Palestine Monetary Authority's deposits

This item comprises the following:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Current accounts	32,467,303	28,191,932
Term deposits maturing within 3 months	99,394,304	77,738,726
Swap deposits maturing within 3 months	62,278,972	43,844,655
Motivational deposits maturing in more than 3 months*	19,824,055	18,571,989
	213,964,634	168,347,302

* This item represents the value of motivational deposits from the Palestinian Monetary Authority to the Arab Islamic Bank (a subsidiary) to mitigate the economic impacts of the Coronavirus (COVID 19) outbreak on the subsidiary's activities and the accompanied losses resulted from the deferral of customers installments during the year 2020. These motivational deposits mature within three years in which PMA collects an interest rate that is below market interest rate at 0.5%. The Bank treated the effect of the difference between the interest rate of these deposits and the market interest rate in accordance with IAS (20)- "Accounting for Government Grants and Disclosure of Government Aid".

12. Banks and financial institutions' deposits

	Current and demand accounts	Term deposits maturing within 3 months	Swap deposits maturing within 3 months	Total
	U.S. $	U.S. $	U.S. $	U.S. $
September 30, 2021				
Local	204,579	10,462,623	10,000,000	20,667,202
Foreign	16,792,066	80,768,695	10,000,000	107,560,761
	16,996,645	91,231,318	20,000,000	128,227,963
December 31, 2020				
Local	32,582,614	4,820,874	-	37,403,488
Foreign	16,076,862	28,607,851	-	44,684,713
	48,659,476	33,428,725	-	82,088,201

13. Customers' deposits

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Customers' deposits		
Current and demand deposits	1,980,615,410	1,780,702,941
Saving deposits	1,242,412,977	1,060,677,761
Time deposits	770,505,395	809,683,606
Debit balances – temporarily credit	22,459,962	34,573,077
	4,015,993,744	3,685,637,385
Unrestricted investment accounts		
Time deposits	408,142,328	387,933,636
Saving deposits	551,609,113	507,364,353
	959,751,441	895,297,989
	4,975,745,185	4,580,935,374

14. Cash margins

This item represents cash margins against:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Direct credit facilities and Islamic financing	199,054,996	185,005,213
Indirect credit facilities and Islamic financing	33,729,565	33,413,859
Others	39,123,357	34,669,808
	271,907,918	253,088,880

15. Loans and borrowings

Following are the details of this item:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Arab Fund for Economic and Social Development *	15,000,000	15,000,000
French Agency for Development **	14,507,500	12,636,180
European Bank for Reconstruction and Development (EBRD)***	10,000,000	-
	39,507,500	27,636,180

* During the year 2020, the bank signed an agreement with the Arab Fund for Economic and Social Development for an amount of U.S. $ 15,000,000 to finance credit facilities of small and medium entities. The loan is to be settled through 15 semiannual installments with a grace period of 36 months. The first installment is due on June 1, 2023 and the last installment will be on June 1, 2030. The loan is subject to annual an interest rate of 3%.

** During 2018, the bank signed a green project financing agreement with the French Agency for development (the Agency) and accordingly, the bank initiated the “Sunref Palestine” project. The project aims to introduce the Agency’s green project initiative which is supported by the European Union. Accordingly, the agreement grants the bank facilities at a maximum amount of Euro 12,500,000. The loan is to be settled through semiannual installments with a grace period of 36 months of. The first installment is due on November 30, 2021 and the last installment will be on May 31, 2031. The loan is subject to an annual interest rate of 2.62%.

The utilized amount as at September 30, 2021 and December 31, 2020 amounted to U.S. $ 14,507,500 and 12,636,180, respectively.

*** During the period, the Bank signed an agreement with the European Bank for Reconstruction and Development for an amount of U.S. $ 15,000,000 to finance credit facilities of small and medium enterprises. During the period, an amount of U.S. $ 10,000,000 was transferred with the remainder to be transferred during the current year. The loan is to be settled through 15 semiannual installments with a grace period of 18 months. The first installment is due on June 15, 2022 and the last installment will be on June 15, 2026. The loan is subject to an annual interest rate of 3%.

16. Sundry provisions

	Balance, beginning of the period/ year	Provided during the period/ year	Paid during the period/ year	Balance, end of the period/ year
	U.S. $	U.S. $	U.S. $	U.S. $
September 30, 2021				
End of service provision	46,931,940	7,448,781	(6,117,939)	48,262,782
Lawsuit's provision	1,919,435	300,000	-	2,219,435
	48,851,375	7,748,781	(6,117,939)	50,482,217
December 31, 2020				
End of service provision	45,056,909	5,982,147	(4,107,116)	46,931,940
Lawsuit's provision	1,919,435	-	-	1,919,435
	46,976,344	5,982,147	(4,107,116)	48,851,375

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

17. Taxes provisions

Movement on taxes provisions during the period ended September 30, 2021 and the year ended December 31, 2020 are as follows:

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Balance, beginning of the period/ year	4,610,652	1,421,119
Addition during the period/ year	20,618,511	17,748,220
Advances paid	(11,280,090)	(14,339,725)
Payments during the period/ year	(704,576)	(218,962)
Balance, end of the period/ year	13,244,497	4,610,652

The Bank records provisions for taxes in accordance with the valid laws, which include article No. (22) and article No. (10) for the year 2017.

The Bank did not reach a final settlement with the Income Tax and the Value Added Tax Departments on the results of its operations for the years 2019 and 2020. The bank submitted its tax declaration on the results of its operations on time, and the tax consultant is following up on the final settlement.

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

Tax expense as disclosed in interim condensed consolidated income statement is as follows:

	September 30, 2021	September 30, 2020
	U.S. $	U.S. $
Provision for the current period	21,188,415	14,456,759
Tax motivational discount on advance payments	(569,904)	(803,014)
Taxes expense for the period	20,618,511	13,653,745

18. Other liabilities

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Outward Transfers	21,104,945	8,985,958
Certified bank checks	17,229,614	23,422,336
Accounts payable	14,738,223	13,364,659
Accrued and not paid interests	8,570,339	7,466,146
Dividends payable	6,457,907	6,503,254
Accrued expenses	4,649,426	1,556,251
Temporary deposits	4,160,211	3,692,379
Return on unrestricted investment accounts	2,933,518	2,602,245
Taxes payable	2,313,423	1,308,279
Negative financial derivatives (Transactions between banks)	1,225,562	12,564,464
Provision for expected credit loss on indirect credit facilities and financing (note 31)	364,937	302,153
Board of Directors bonuses	165,000	1,020,000
Others	13,390,226	10,354,389
	97,303,331	93,142,513

19. Additional paid-in capital

Additional paid-in capital resulted from the following:

- The acquisition of the Bank's portfolio of the Commercial Bank of Palestine (CBP), which resulted in issuing 10,008,685 shares of Bank's shares to the shareholders of CBP. The share price of Bank of Palestine of U.S. $ 1 par value was U.S. $ 2.58. This resulted in additional paid-in capital of U.S. $ 15,813,723. The acquisition was based on the Bank's extra –ordinary meeting held on March 25, 2016.

- The admission of the International Finance Corporation (IFC) as a strategic partner with 5% of the share capital which amounted to 4,070,239 shares of U.S. $ 1 par value, each and an additional paid-in capital of U.S. $ 2.06 for each share with total additional paid-in capital amounting to U.S. $ 8,384,692. The admission was based on the Bank's Board of Director's decision in the meeting held on June 15, 2008.

- Offering 13 million shares exclusively for Banks' shareholders at U.S. $ 1 par value for each share plus U.S. $ 0.05 of additional paid-in capital, with a total additional paid-in capital amounted to U.S. $ 650,000. The offer was based on extra-ordinary shareholders meeting on April 6, 2007.

- On July 15, 2021, the Bank signed an agreement with the French Proparco Corporation (the Corporation) in which the French Development Agency (FISEA) a subsidiary of the Proparco Corporation invests, according to which the Corporation was entered as a strategic partner to the Bank, with a contribution of 3.34% of the bank's capital, equivalent to 7,272,727 share at U.S. $ 1 par value per share plus U.S. $ 0.65 of additional paid-in capital, with a total additional paid-in capital amounted to U.S. $ 4,727,273.

20. Reserves

Statutory reserve

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

Voluntarily reserve

Voluntarily reserve represents cumulative transfers of the Bank's subsidiaries. As these consolidated financial statements represent interim condensed financial information, the Bank did not appropriate any amounts to the voluntarily reserve.

General banking risks reserve

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

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA's instruction (6/2015), the Bank seized transfers to the reserve according to PMA instructions No (1/2018) which set the percentage at 0.57% of risk-weighted assets as anti-cyclical capital buffer. The instructions allow Banks to utilize the pro-cyclicity reserve balance for the purpose of this buffer. The bank will be obligated to disclosure requirements of the anti-cyclical capital buffer starting from March 31, 2023. The Banks are not allowed to utilize the balance of the reserve without PMA's prior approval.

21. Dividends

The Bank's General Assembly, during its meeting held on March 31, 2021, approved dividends distribution of U.S. $ 10,404,000, as stock dividends of U.S. $ 2,080,800 and as cash dividends of U.S. $ 8,323,200 based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

The Bank's General Assembly, during its meeting held on March 26, 2020, approved dividends distribution of U.S. $ 20,400,000, as stock dividends of U.S. $ 4,080,000 and as cash dividends of U.S. $ 16,320,000 based on pro-rata ownership of the Bank's shareholders in the Bank's share capital.

The general assembly of Arab Islamic Bank (a subsidiary) during its meeting held on March 17, 2021, approved dividends distribution of U.S. $ 5,815,000, as stock dividends of U.S. $ 3,250,000 and as cash dividends of U.S. $ 2,565,000 to the shareholders of the Arab Islamic Bank.

22. Net gains from financial assets portfolio

The details of this line item are as follows:

	September 30, 2021	September 30, 2020
	U.S. $	U.S. $
Unrealized gain (losses) from revaluation of financial assets at fair value through profit or loss	3,821,445	(1,838,310)
Dividend from financial assets at fair value through other comprehensive income	1,923,127	-
Dividend from financial assets at fair value through profit or loss	1,105,113	1,714,336
(Losses) gains from sale of financial assets at amortized cost	(3,310)	448,227
Investment management fees	(438,633)	(313,029)
	6,407,742	11,224

23. Palestine Monetary Authority's Fines

This item represents fines imposed by PMA on the Bank and its subsidiary for the nine-month period ended September 30, 2020 related to non-compliance with PMA instructions and the related laws and regulations.

24. Provision of expected credit losses, net

This item represents the IFRS (9) effect on the financial assets, as the below schedule:

	September 30, 2021				September 30, 2020
	Stage (1)	Stage (2)	Stage (3)	Total	
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with Palestine Monetary Authority (note 4)	-	-	-	-	(45,632)
Balances at banks and financial institutions (note 5)	35,662	(91,581)	-	(55,919)	317,096
Direct credit facilities and Islamic financing (note 7)	2,924,915	3,564,042	10,761,055	17,250,012	30,252,204
Financial assets at amortized cost (note 9)	446,176	8,658	-	454,834	(629,974)
Indirect credit facilities (note 31)	62,784	-	-	62,784	189,277
Total	3,469,537	3,481,119	10,761,055	17,711,711	30,082,971

25. Basic and diluted earnings per share

	September 30, 2021	September 30, 2020
	U.S. $	U.S. $
Profit for the period attributable to equity holders of the Bank	39,358,510	13,222,875
	Shares	Shares
Weighted average of subscribed shares during the period	212,234,874	210,160,800
	U.S. $	U.S. $
Basic and diluted earnings per share from profit of the period attributable to equity holders of the Bank	0.19	0.06

26. Cash and cash equivalents

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

	September 30, 2021	September 30, 2020
	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	1,888,200,505	1,301,235,592
Add:		
Balances at banks and financial institutions	624,698,287	464,454,120
	2,512,898,792	1,765,689,712
Less:		
Deposits at banks and financial institutions maturing in more than three months	(24,156,559)	(20,630,465)
Investments at Islamic banks maturing in more than three months	(4,062,368)	(4,311,746)
Restricted cash balances	(87,736,318)	(51,154,740)
Deposits at Palestine Monetary Authority	(194,140,579)	(175,353,450)
Banks and financial institutions' deposits	(128,227,963)	(65,104,656)
Statutory cash reserve	(462,646,148)	(384,655,720)
	1,611,928,857	1,064,478,935

27. Related party transactions

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

September 30, 2021	Associates	Major shareholders	Board of Directors and key management	Others*	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:					
Direct credit facilities and Islamic financing	4,148,575	-	51,591,786	42,050,265	97,790,626
Including: non-performing credit facilities	-	-	-	309,297	309,297
Deposits	5,971		21,236,897	35,250,818	56,493,686
Financial assets at amortized cost	-	-	8,000,000	-	8,000,000
Board of Directors renumerations	-	-	165,000	-	165,000
Commitments and contingencies					
Letters of guarantees	211,566	-	9,819,503	1,241,680	11,272,749
Letters of credit	-	-	-	580,300	580,300
Unutilized limits	-	-	241,796	7,290,512	7,532,308
Consolidated Income statement items for the period ended September 30, 2021:					
Interest and commissions earned	140,060	-	2,403,320	1,252,037	3,795,417
Interest and commissions paid	-	-	877,588	146,245	1,023,833

December 31, 2020	Associates	Major shareholders	Board of Directors and key management	Others*	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:					
Direct credit facilities and Islamic financing	4,657,378	-	67,251,018	34,927,753	106,836,149
Including: non-performing credit facilities	-	-	-	209,034	209,034
Deposits	-	-	20,183,964	22,064,489	42,248,453
Subordinated loan	-	75,000,000	-	-	75,000,000
Financial assets at amortized cost	-	-	8,000,000	-	8,000,000
Board of Directors renumerations	-	-	1,020,000	-	1,020,000
Commitments and contingencies					
Letters of guarantees	211,566	-	19,910,341	1,036,153	21,158,060
Letters of credit	-	-	-	614,400	614,400
Unutilized limits	-	-	258,003	6,422,735	6,680,738
Consolidated Income statement items for the period ended September 30, 2020:					
Interest and commissions earned	100,205	-	3,060,786	368,360	3,540,915
Interest and commissions paid	-	4,367,717	680,756	122,340	5,170,813

* Others include branches' managers, non-executive employees and their relatives, and non-major shareholders as disclosed to PMA.

- Net direct credit facilities and Islamic financing granted to related parties as at September 30, 2021 and December 31, 2020 represent 2.88% and 3.27% respectively, from the net direct credit facilities and Islamic financing.
- Net direct credit facilities and Islamic financing granted to related parties as at September 30, 2021 and December 31, 2020 represent 19.8% and 21.37% respectively, from the Bank's regulatory capital.
- Interest on U.S. $ direct credit facilities ranges between 0.73% to 14.4%.
- Interest on New Israeli Shekels direct credit facilities ranges between 3% to 16%.
- Interest on the Jordanian Dinar direct credit facilities ranges between 7.5% to 11%.
- Interest on U.S. $ deposits ranges between 1% to 5.25%.

The summary of compensation (salaries, bonuses and other compensation) of key management personnel is as follows:

	September 30, 2021	September 30, 2020
	U.S. $	U.S. $
Executive management's salaries and related benefits	2,438,558	2,459,338
Executive management's end of service provision	429,600	169,145
Board of Directors bonuses	165,000	220,000
Chairman allowances	360,000	360,000

28. Fair value measurement

The following table provides the fair value measurement hierarchy of the Bank and its subsidiaries' assets. Following is the fair value measurement disclosure and the hierarchy of the assets as at September 30, 2021:

			Measurement of fair value by		
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	Date of evaluation	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 6):					
Quoted	September 30, 2021	13,707,979	13,707,979	-	-
Unquoted	September 30, 2021	8,914,225	-	-	8,914,225
Financial assets at fair value through other comprehensive income (note 8):					
Quoted	September 30, 2021	22,359,599	22,359,599	-	-
Unquoted	September 30, 2021	4,987,845	-	-	4,987,845
Investment properties	September 30, 2021	26,106,919	-	-	26,106,919
Financial assets accounted for in its fair value:					
Financial assets at amortized cost (note 9):					
Treasury bills	September 30, 2021	135,629,293	76,322,927	-	59,306,366
Quoted financial bonds	September 30, 2021	53,742,680	53,742,680	-	-
Unquoted bonds	September 30, 2021	12,500,000	-	-	12,500,000
Islamic Sukuk	September 30, 2021	31,246,425	31,246,425	-	-

The following table provides the fair value measurement hierarchy disclosure of the Bank's assets as of December 31, 2020:

			Measurement of fair value by		
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	Date of evaluation	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value					
Financial assets at fair value through profit or loss (note 6):					
Quoted	December 31, 2020	10,376,965	10,376,965	-	-
Unquoted	December 31, 2020	8,358,340	-	-	8,358,340
Financial assets at fair value through other comprehensive income (note 8):					
Quoted	December 31, 2020	23,561,092	23,561,092	-	-
Unquoted	December 31, 2020	4,997,932	-	-	4,997,932
Investment properties	December 31, 2020	25,884,919	-	-	25,884,919
Financial assets accounted for in its fair value:					
Financial assets at amortized cost (note 9):					
Treasury bills	December 31, 2020	106,941,684	76,803,680	-	30,138,004
Quoted bonds	December 31, 2020	64,399,222	64,399,222	-	-
Unquoted bonds	December 31, 2020	8,000,000	-	-	8,000,000
Islamic Sukuk	December 31, 2020	29,048,404	29,048,404	-	-

During the period ended on September 30, 2021 and the year ended on December 31, 2020, the bank did not make any transfers of financials instruments between level one and two and there were no transfers from/ to level three.

Fair Value of Financial instruments

The table below represents a comparison between the carrying amounts and fair values of financial instruments as at September 30, 2021 and December 31, 2020:

	Carrying amount		Fair value	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with Palestine Monetary Authority	1,888,200,505	1,323,410,056	1,888,200,505	1,323,410,056
Balances at banks and financial institutions	621,644,509	747,858,727	621,644,509	747,858,727
Financial assets at fair value through profit or loss	22,622,204	18,735,305	22,622,204	18,735,305
Direct credit facilities and Islamic financing	3,397,094,012	3,266,748,588	3,397,094,012	3,266,748,588
Financial assets at fair value through other comprehensive income:				
Quoted stocks	22,359,599	23,561,092	22,359,599	23,561,092
Unquoted stocks	4,987,845	4,997,932	4,987,845	4,997,932
Financial assets at amortized cost:				
Treasury bills	134,691,333	106,372,103	135,629,293	106,941,684
Quoted bonds	49,221,036	62,247,819	53,742,680	64,399,222
Unquoted bonds	12,237,713	7,830,904	12,500,000	8,000,000
Islamic sukuk	31,246,425	29,048,404	31,246,425	29,048,404
Other financial assets	29,989,517	36,518,160	29,989,517	36,518,160
Total assets	6,214,294,698	5,627,329,090	6,220,016,589	5,630,219,170
Financial liabilities				
Palestine Monetary Authority deposits	213,964,634	168,347,302	213,964,634	168,347,302
Banks and financial institutions' Deposits	128,227,963	82,088,201	128,227,963	82,088,201
Customers' deposits	4,975,745,185	4,580,935,374	4,975,745,185	4,580,935,374
Cash margins	271,907,918	253,088,880	271,907,918	253,088,880
Subordinated loan	75,000,000	75,000,000	75,000,000	75,000,000
Loans and borrowings	39,507,500	27,636,180	39,507,500	27,636,180
Istidama loans from Palestine Monetary Authority	14,592,659	9,134,926	14,592,659	9,134,926
Lease liabilities	31,678,994	33,453,914	31,678,994	33,453,914
Other financial liabilities	96,938,394	92,840,360	96,938,394	92,840,360
Total liabilities	5,847,563,247	5,322,525,137	5,847,563,247	5,322,525,137

29. Segment information

Information on the Bank's business segments

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

	Retail	Corporate, institutions and public sector	Treasury	Other	Total September 30, 2021	Total September 30, 2020
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	84,125,066	120,183,334	25,586,787	1,940,736	231,835,923	206,955,902
Provision of expected credit loss, net	(1,938,444)	(15,311,568)	(461,699)	-	(17,711,711)	(30,082,971)
Credit facilities not provided previously	(1,494,988)	-	-	-	(1,494,988)	(820,740)
Segment results					194,543,047	134,303,728
Unallocated expenses					(129,131,973)	(106,167,160)
Profit before taxes					65,411,074	28,136,568
Taxes expense					(20,618,511)	(13,653,745)
Profit for the period					44,792,563	14,482,823
Other segment information						
Depreciation and amortization					13,414,258	14,094,014
Capital expenditures					6,747,921	12,921,175
					September 30, 2021	December 31, 2020
Total segment assets	998,944,444	2,398,149,568	2,796,976,807	201,578,085	6,395,648,904	5,809,809,988
Total segment liabilities	3,355,195,704	1,892,457,399	471,292,756	192,709,039	5,911,654,898	5,376,289,317

Geographical distribution information

The following is the distribution of the Bank's revenues and asset according to geographical sector:

	Domestic September 30, 2021	Domestic September 30, 2020	Foreign September 30, 2021	Foreign September 30, 2020	Total September 30, 2021	Total September 30, 2020
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	223,455,138	203,276,732	8,380,785	3,679,170	231,835,923	206,955,902
Capital expenditures	6,747,921	12,921,175	-	-	6,747,921	12,921,175

	Domestic September 30, 2021	Domestic December 31, 2020	Foreign September 30, 2021	Foreign December 31, 2020	Total September 30, 2021	Total December 31, 2020
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	5,593,162,641	5,163,927,821	802,486,263	645,882,167	6,395,648,904	5,809,809,988

30. Capital management

The primary objective of the Bank's capital management is to ensure that it maintains adequate capital ratios in order to support its business and maximize shareholders value.

The Bank manages its capital structure and makes adjustments to it in light of changes in business conditions. The Bank did not make any adjustments on goals, policies, and actions concerning capital management for current and prior year, except for the bank raising its paid-in capital by an amount of U.S. $ 9,353,527 and U.S. $ 4,080,000 as at September 30, 2021 and December 31, 2020, respectively. (Note 1 and 19).

The Bank has been classified as a bank of regulatory importance at the local level, according to the general framework of banks of regulatory importance approved by the Board of Directors of the PMA.

The capital adequacy ratio is computed in accordance with the PMA's instructions No. (8/2018) derived from Basel III international regulations, and following are the capital adequacy rates:

	September 30, 2021			December 31, 2020		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	521,130,019	8.12	15.34	499,707,546	8.60	14.24
Basic capital	402,209,648	6.27	11.84	376,912,943	6.49	10.74

31. Commitments and contingent liabilities

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

	September 30, 2021	December 31, 2020
	U.S. $	U.S. $
Letters of guarantees	192,267,478	191,064,802
Letters of credit	43,428,332	32,823,758
Acceptances	12,138,047	12,810,821
Unutilized credit facilities limits	283,777,718	363,743,554
Others	342,100	388,850
	531,953,675	600,831,785
Less: provision for expected credit loss	(364,937)	(302,153)
	531,588,738	600,529,632

Outstanding forward deals contracts as at September 30, 2021 and December 31, 2020 amounted to U.S.$ 39,559,831 and U.S. $ 26,491,040, respectively. Those contracts are not disclosed as part of commitments and contingent liabilities as the Bank hedges risks of these contracts with other banks. In addition, the Bank obtains cash margin ranging from 5% to 10% of contract value to cover unforeseen price changes and customers' non-compliance with the signed contracts.

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

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	600,831,785	-	-	600,831,785
Net change during the period	(68,878,110)	-	-	(68,878,110)
Balance, end of the period	531,953,675	-	-	531,953,675

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	518,894,667	-	-	518,894,667
Net change during the year	81,937,118	-	-	81,937,118
Balance, end of the year	600,831,785	-	-	600,831,785

The summary on the movement of expected credit loss provision on indirect credit facilities and Islamic financing is as follows (note 18):

	September 30, 2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the period	302,153	-	-	302,153
Net remeasurement of expected credit loss for the period	62,784	-	-	62,784
Balance end of the period	364,937	-	-	364,937

	December 31, 2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	246,044	-	-	246,044
Net remeasurement of expected credit loss for the period	56,109	-	-	56,109
Balance, end of the year	302,153	-	-	302,153

32. Lawsuits against the Bank

The number of lawsuits filed against the Bank and its subsidiaries as at September 30, 2021 and December 31, 2020 was (254) and (207), respectively and that's within the normal course of business with a total amount of U.S. $ 70,609,777 and U.S. $ 62,029,218, respectively. The Bank's management and lawyer believe that no additional provision is required other than what was provided.

During the year 2019, a lawsuit was filed against the Bank on January 1, 2019 by certain individuals in the United States District Court for the Eastern District of New York. By this lawsuit, the plaintiffs brought a single claim against the Bank for secondary liability pursuant to the United States Anti-Terrorism Act. On August 17, 2019 the bank filed a motion to dismiss the lawsuit based on legal basis. In response to the motion, the plaintiffs filed an amended complaint. The Bank accordingly filed a motion to dismiss the amended complaint on December 24, 2019.

Subsequently, on February 4, 2020, the plaintiffs responded on the bank's motion to dismiss the amended complaint. The Bank filed its reply papers in support of its motion to dismiss on March 10, 2020. On May 3, 2021, the Court entered an order denying the portion of the Bank's motion to dismiss the lawsuit on jurisdictional grounds, but "without prejudice" to the Bank renewing that motion following a 120-period of jurisdictional discovery. The Court limited the scope of jurisdictional discovery to determine whether the Bank sent or received any transfers through its U.S. correspondent accounts for a small number of alleged bank customers during the relevant (2001-2003) time-period. The Court's order also specifically reserved decision on the Bank's separate argument that the plaintiffs have failed to state a legally sufficient claim against the Bank. Jurisdictional discovery is now underway, with a new deadline for completion of December 31, 2021. Thereafter, the Bank intends to renew its motion to dismiss on jurisdictional grounds, and to press its pending motion to dismiss on legal-sufficiency grounds, most likely during the first quarter of 2022.

Consistent with the commitment of Bank management, the Bank complies fully with Palestinian laws and international best practices. In addition, the Bank fully complies with the Palestinian Anti-Terrorism and Money Laundering Law No. (20) of the year 2015 and the Palestinian requirements to maintain secrecy of customers and banking transactions. According to the bank's advisor, the lawsuit is at its early stages and any financial effect is not predictable at the date of the consolidated financial statements. According to the bank's advisor, the defenses raised by the motion are strong ones.

33. 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.

Relevant PMA instructions

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

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

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

Additionally, the Arab Islamic Bank (subsidiary) has postponed/ restructured the financing installments for customers of the affected economic sectors both companies and individuals, without additional returns in accordance, with PMA instructions No. (23/2020). The deferred profits are amortized over the extended contractual term of the financing. Based on the that, the Bank has unified the accounting policies of its subsidiary when preparing the consolidated financial statements for the year ended December 31, 2020. This amendment has been treated with in accordance with IFRS (9). Modification of assets, in which the difference between the present value of future cash flows and the book value was recognized as losses resulting from modification of the Islamic financing of the subsidiary under net financing and investment income in an amount of U.S. $ 3,364,410 in the consolidated income statement as of December 31, 2020. During the nine-month period ended September 30, 2021, an amount of U.S. $ 2,949,882 was recorded to the interim condensed consolidated income statement related to unwinding of the modification loss arising from the Islamic financing of a subsidiary.

To compensate for these losses, the Arab Islamic Bank received during 2020 a deposit of U.S. $ 20 million from PMA at a below market interest rate maturing in 2023. The deposit was classified as a governmental grant in accordance with IAS (20) "Accounting for Government Grants and Disclosure of Government Assistance". The purpose of this deposit is to compensate the bank for modification losses and all other related costs due to deferral of installments. The benefit of the subsidized financing interest rate was calculated on a systematic basis in accordance with the accounting for government grants. Accordingly, a total income of U.S. $ 1,428,011 has been recognized in the consolidated income statement as of December 31, 2020 under net financing and investment income. The calculation included the management judgement and estimates in the recognition and measurement of income from the grant. During the nine-month period ended September 30, 2021, an amount of U.S. $ 1,252,066 has been charged to the interim condensed consolidated statement of income relating to the unwinding of the day 1 income.

Istidama Program Loans

The Bank and its subsidiary granted loans through PMA support program, to support small and medium enterprises 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).

34. Concentration of risk in geographical area

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