BANK OF PALESTINE P.L.C

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

Building a better working world

Independent Auditor's Report

To the Shareholders of Bank of Palestine P.L.C

Opinion

We have audited the consolidated financial statements of Bank of Palestine and its subsidiaries (collectively the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2022, 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, 2022, 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), in addition to other professional conduct requirements appropriate for auditing the consolidated financial statements in Palestine, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2022. 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 consolidated financial statements.

Building a better working world

Adequacy of provision of expected credit losses for credit facilities and Islamic financing

Key audit matter	How the key audit matter was addressed in theaudit
The process of estimating the expected credit losses of credit facilities in accordance with IFRS (9) is important, complex and requires a lot of diligence. IFRS (9) requires the use of the ECL model, which requires the Bank's management to use many assumptions and estimates on determining both the timing and value of expected credit losses, in addition to applying diligence to determine the inputs to the impairment measurement process, including the valuation of collateral and the determination of the date of default. Due to the importance of the provisions applied in IFRS (9) and credit exposures that form a major part of the Bank's assets, expected credit losses are considered as key audit matter. As at December 31, 2022, the Bank's gross direct credit facilities and Islamic financing amounted to U.S. $ 3,778,231,602 and the provision of expected credit losses amounted to U.S. $ 188,260,868. The policy for the provision of expected credit losses is presented in the accounting policies adopted for the preparation of these consolidated financial statements in note (3).	Our audit procedures included assessing the controls on procedures for granting, recording and monitoring credit facilities and financing, and the process of measuring ECL, including the requirements of Palestine Monetary Authority (PMA) to verify the effectiveness of the main controls in place, which determine the impairment in direct credit facilities and Islamic financing, and required provisions against them. In addition, our audit procedures included the following: – We gained an understanding of the Bank's key direct credit facilities and Islamic financing processes, in addition to examination of internal controls system of granting, booking, and evaluating the effectiveness of the main procedures followed in the granting and booking processes. – We studied and understood the Bank's policy in calculating provisions in comparison with the requirements of IFRS (9) and the relevant regulatory guidelines and instructions. – We evaluated the Bank's expected credit losses model, with special emphasis on alignment with the expected credit losses model and the basic methodology within the requirements of IFRS 9. We have studied a sample of direct credit facilities and Islamic financing individually, and carried out the following procedures to assess the following: – The appropriateness of staging. – The appropriateness of the process of determining exposure at default, including consideration of the cash flows resulting from repayment and the resulting calculations.

	– The appropriateness of the probability of default, and the exposure at default and the loss given default for the different stages. – Validity and accuracy of the model used in the process of calculating expected credit losses. – Assessing the appropriateness of the Bank's estimation process for an increase in credit risks and the basis for transferring credit exposure between stages, for the exposures that have been transferred between stages, in addition to evaluating the process in terms of appropriate timing to determine the significant increase in credit risk of credit exposures. – Recalculating of the expected credit losses for direct credit facilities and Islamic financing individually, in addition to understanding the latest developments in terms of cash flows and financial position, and if there is any scheduling or structuring. – In relation to the forward-looking assumptions used by the Bank for calculating ECL, we have discussed these assumptions with management and compared these assumptions to available information. – Procedures for evaluating collateral in accordance with the evaluation rules approved by the Bank. We evaluated the disclosures to the consolidated financial statements to ensure their compliance with IFRS (9). Accounting policies, significant accounting estimates and judgments, disclosure of direct credit facilities and Islamic financing and credit risk management are detailed in the notes (3, 8 and 47) to the consolidated financial statements.

Building a better working world

Other information included in the Bank's 2022 Annual Report

Other information consists of the information included in the Bank's 2022 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 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.

Our responsibility is to read the other information when obtained and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or from our knowledge obtained in the audit of the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East
License # 206/2012

Sa'ed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

March 27, 2023
Ramallah – Palestine

Consolidated Statement of Financial Position
As at December 31, 2022

	Note	2022 U.S. $	2021 U.S. $
ASSETS			
Cash and balances with Palestine Monetary Authority	5	1,803,515,455	1,779,579,889
Balances, deposits and investments at Banks and financial institutions	6	592,297,476	782,230,313
Financial assets at fair value through profit or loss	7	9,168,285	10,253,849
Direct credit facilities and Islamic financing	8	3,572,054,865	3,453,207,160
Financial assets at fair value through other comprehensive income	9	59,526,233	42,255,262
Financial assets at amortized cost	10	241,306,472	228,845,417
Investment in associates and a joint venture	11	11,996,852	9,671,052
Investment properties	12	22,930,742	25,962,178
Property, plant and equipment and right of use assets	13	109,275,425	115,897,814
Projects in progress	14	649,543	1,366,792
Intangible assets	15	14,984,886	14,613,893
Other assets	16	50,254,623	44,338,187
Total assets		6,487,960,857	6,508,221,806
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority's deposits	17	199,103,950	242,439,107
Banks and financial institutions' deposits	18	93,668,011	120,061,868
Customers' deposits	19	4,966,613,355	5,013,551,326
Cash margins	20	300,110,487	291,588,276
Subordinated loan	21	60,000,000	72,500,000
Loans and borrowings	22	77,656,331	48,442,500
Istidama loans from Palestine Monetary Authority	23	32,110,614	22,307,552
Lease Liabilities	24	30,105,511	31,900,160
Sundry provisions	25	52,355,497	50,983,323
Taxes provisions	26	35,440,008	21,492,314
Other liabilities	27	94,874,472	96,855,951
Total liabilities		5,942,038,236	6,012,122,377
Equity			
Paid-in share capital	1	223,958,577	217,433,527
Additional paid-in capital	28	29,575,688	29,575,688
Statutory reserve	29	67,974,894	61,883,607
Voluntarily reserve	29	246,361	246,361
General Banking risks reserve	29	8,374,676	10,311,877
Pro-cyclicality reserve	29	40,000,000	40,000,000
Fair value reserve	9	3,344,655	(1,692,549)
Retained earnings		107,929,885	77,612,532
Equity attributable to the Bank's shareholders		481,404,736	435,371,043
Non-controlling interests	4	64,517,885	60,728,386
Total equity		545,922,621	496,099,429
Total liabilities and equity		6,487,960,857	6,508,221,806

Consolidated Income Statement
For the year ended December 31, 2022

	Note	2022 U.S. $	2021 U.S. $
Interest income	31	190,311,172	174,693,883
Interest expense	32	(30,298,572)	(38,906,250)
Net interest income		160,012,600	135,787,633
Net financing and investment income	33	56,155,334	50,166,699
Net commissions income	34	40,114,898	37,643,732
Net interest, financing, investment and commissions income		256,282,832	223,598,064
Foreign currencies gains		28,036,643	22,094,579
Net gains from financial assets portfolio	35	1,384,594	7,951,831
Bank's share of results of associates and a joint venture	11	2,625,800	460,415
Other revenues, net	36	10,846,950	8,429,421
Gross profit before expected credit losses provisions		299,176,819	262,534,310
Provision for expected credit losses on direct credit facilities and Islamic financing and other receivables, net	8&16	(24,281,877)	(22,768,136)
Provision for expected credit losses on investments, and indirect credit facilities and Islamic financing, net	39	(3,816,883)	(1,846,010)
Gross profit		271,078,059	237,920,164
Expenses			
Personnel expenses	37	(85,630,488)	(82,172,194)
Other operating expenses	38	(58,275,419)	(50,857,509)
Depreciation and amortization	13&15	(17,871,196)	(17,927,102)
Losses of investment properties	12	(16,723)	(285,740)
Written off credit facilities not previously provided for	8	(1,921,400)	(2,052,766)
Palestine Monetary Authority's fines	40	(25,000)	(20,000)
Total expenses		(163,740,226)	(153,315,311)
Profit before taxes		107,337,833	84,604,853
Taxes expense	26	(40,691,196)	(28,350,526)
Profit for the year		66,646,637	56,254,327
Attributable to:			
Equity holders of the Bank		60,912,868	49,132,664
Non-controlling interests	4	5,733,769	7,121,663
		66,646,637	56,254,327
Basic and diluted earnings per share attributable to equity holders of the Bank	42	0.27	0.22

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2022

	Note	2022 U.S. $	2021 U.S. $
Profit for the year		66,646,637	56,254,327
Items of other comprehensive income:			
Items not to be reclassified to the consolidated income statement in subsequent periods:			
Gains from revaluation of financial assets through other comprehensive income items		4,658,654	3,845,690
Total items that will not be reclassified to the consolidated income statement		4,658,654	3,845,690
Total comprehensive income for the year		71,305,291	60,100,017
Attributable to:			
Equity holders of the Bank		65,598,280	52,470,623
Non-controlling Interests	4	5,707,011	7,629,394
		71,305,291	60,100,017

Consolidated Statement of Changes in Equity
For the year ended December 31, 2022

			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
2022	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	217,433,527	29,575,688	61,883,607	246,361	10,311,877	40,000,000	(1,692,549)	77,612,532	435,371,043	60,728,386	496,099,429
Profit for the year	-	-	-	-	-	-	-	60,912,868	60,912,868	5,733,769	66,646,637
Other comprehensive income	-	-	-	-	-	-	4,685,412	-	4,685,412	(26,758)	4,658,654
Total comprehensive income for the year	-	-	-	-	-	-	4,685,412	60,912,868	65,598,280	5,707,011	71,305,291
Transfer of fair value reserve from sale of financial assets through other comprehensive income (note 9)	-	-	-	-	-	-	351,792	(351,792)	-	-	-
Transfers to reserves	-	-	6,091,287	-	(1,937,201)	-	-	(4,154,086)	-	-	-
Stock dividends (note 30)	6,525,050	-	-	-	-	-	-	(6,525,050)	-	-	-
Cash dividends (note 30)	-	-	-	-	-	-	-	(19,569,017)	(19,569,017)	(1,917,512)	(21,486,529)
Fractions of stocks	-	-	-	-	-	-	-	4,430	4,430	-	4,430
Balance, end of the year	223,958,577	29,575,688	67,974,894	246,361	8,374,676	40,000,000	3,344,655	107,929,885	481,404,736	64,517,885	545,922,621

			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
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 year	208,080,000	24,848,415	56,970,341	246,361	10,311,877	40,000,000	(4,999,792)	43,763,159	379,220,361	54,300,310	433,520,671
Profit for the year	-	-	-	-	-	-	-	49,132,664	49,132,664	7,121,663	56,254,327
Other comprehensive income	-	-	-	-	-	-	3,337,959	-	3,337,959	507,731	3,845,690
Total comprehensive income for the year	-	-	-	-	-	-	3,337,959	49,132,664	52,470,623	7,629,394	60,100,017
Transfer of fair value reserve from sale of financial assets through other comprehensive income (note 9)	-	-	-	-	-	-	(30,716)	30,716	-	28,286	28,286
Transfers to reserves	-	-	4,913,266	-	-	-	-	(4,913,266)	-	-	-
Increase in the Bank's paid-in share capital (note 1&28)	7,272,727	4,727,273	-	-	-	-	-	-	12,000,000	-	12,000,000
Stock dividends (note 30)	2,080,800	-	-	-	-	-	-	(2,080,800)	-	-	-
Cash dividends (note 30)	-	-	-	-	-	-	-	(8,323,200)	(8,323,200)	(1,229,604)	(9,552,804)
Fractions of stocks	-	-	-	-	-	-	-	3,259	3,259	-	3,259
Balance, end of the year	217,433,527	29,575,688	61,883,607	246,361	10,311,877	40,000,000	(1,692,549)	77,612,532	435,371,043	60,728,386	496,099,429

The accompanying notes from 1 to 54 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
For the year ended December 31, 2022

	Note	2022 U.S. $	2021 U.S. $
Operating activities			
Profit for the year before taxes		107,337,833	84,604,853
Adjustments for:			
Depreciation and amortization		17,871,196	17,927,102
Net gains from financial assets portfolio		(1,384,594)	(7,951,831)
Provision for expected credit losses on credit facilities and Islamic financing, investments, and other receivables		28,098,760	24,614,148
Losses from revaluation of deposits at below market interest rate		-	1,428,011
Gains from modification arising from Islamic financing of a subsidiary		-	(3,364,410)
Finance cost on lease liabilities		781,680	958,455
Impairment on projects in progress		-	1,056,516
Sundry provisions		10,641,157	10,133,706
Losses of investment properties, net		16,723	285,740
Bank's share of results of associates and a joint venture		(2,625,800)	(460,415)
Written off credit facilities not previously provided for		1,921,400	2,052,766
(Gains) Losses on disposal of property, plant and equipment		(273,412)	299,475
Other non-cash items		(1,604,569)	(1,910,880)
		160,780,374	129,673,236
Changes in assets and liabilities:			
Direct credit facilities and Islamic financing		(147,198,253)	(208,000,264)
Statutory cash reserve		(15,577,727)	(64,477,948)
Other assets		(5,772,750)	2,990,503
Customers' deposits		(46,937,971)	432,615,952
Istidama loans		9,803,062	13,172,626
Cash margins		8,522,211	38,499,396
Other liabilities		(1,767,550)	4,698,282
Net cash flows (used in) from operating activities before taxes and paid provisions		(38,148,604)	349,171,783
Taxes and advances paid		(27,278,003)	(11,468,864)
Sundry provision paid		(9,268,983)	(8,001,758)
Net cash flows (used in) from operating activities		(74,695,590)	329,701,161
Investing activities			
Purchase of financial assets at fair value through profit or loss and through other comprehensive income		(14,756,699)	(14,481,474)
Sale of financial assets at fair value through profit or loss and through other comprehensive income		2,195,555	18,595,044
Purchase of financial assets at amortized cost		(77,145,671)	(73,609,903)
Maturated financial assets at amortized cost		66,330,000	51,285,668
Deposits at Banks and financial institutions maturing in more than three months		(19,040,903)	(3,832,158)
Changes in restricted balances of withdrawal		8,007,986	(7,567,173)
Palestine monetary authority deposits for a period more than three months		2,683,728	86,627,310
Banks and financial institutions' deposits maturing in more than three months		932,086	2,000,000
Investment at Islamic Banks maturing in more than three months		(3,000,000)	1,062,368
Commission on investments management		(544,438)	(693,134)
Stock dividends received		3,263,423	3,906,474
Investments in associates and a joint venture		-	(4,000,000)
Intangible assets		(2,699,011)	(1,300,903)
Projects in progress		(430,572)	(1,644,400)
Purchase of investment properties		2,958,000	-
Purchase of property, plant and equipment		(5,742,589)	(6,541,977)
Sale of property, plant and equipment		417,564	199,635
Net cash flows (used in) from investing activities		(36,571,541)	50,005,377
Financing activities			
Lease liabilities paid		(4,694,147)	(4,794,691)
Subordinated loan payment		(12,500,000)	(2,500,000)
Cash dividends paid		(21,587,892)	(10,550,581)
Increase in the Bank's paid-in share capital		-	12,000,000
Loans and borrowings		29,213,831	20,806,320
Fractions of stock dividends sold		4,430	3,259
Net cash flows (used in) from financing activities		(9,563,778)	14,964,307
(Decrease) Increase in cash and cash equivalents		(120,830,909)	394,670,845
Cash and cash equivalents, beginning of the year		1,737,250,612	1,342,579,767
Cash and cash equivalents, end of the year	41	1,616,419,703	1,737,250,612
Interest expense paid		38,932,857	52,230,778
Interest revenue received		252,452,643	229,728,043

The accompanying notes from 1 to 54 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements
December 31, 2022

1. General

Bank of Palestine P.L.C (the Bank) was established in 1960 and was registered with the companies' controller office of the Palestinian National Authority in Gaza as a public shareholding limited company under registration no, (563200096) in accordance with Companies' Law of 1929 and its subsequent amendments. The Bank's shares were listed for trading at the Palestine Securities Exchange during 2005.

Following the decision of the extraordinary general assembly during its meeting held on March 29, 2018, the Bank's authorized capital was increased from 200 million shares to 250 million shares at U.S. $ 1 par value per share. During its ordinary 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 French Proparco Corporation, in which the French Development Agency (FISEA), will invest an amount of U.S. $ 7,272,727 in the Bank through a special issue of shares, bringing the paid-in share capital of the Bank to U. S. $ 217,433,527 as at December 31, 2021. During its ordinary meeting held on April 19, 2022, the general assembly approved increasing the Bank's paid-in share capital by U.S. $ 6,525,050 through stock dividends, bringing the paid-in share capital of the Bank to U. S. $ 223,958,577 as at December 31, 2022.

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 (43) offices located in Palestine and an electronic office. In addition, PMA authorized the opening of two representation offices; one in Dubai, United Arab Emirates and another in Chile. The number of branches of Arab Islamic Bank (a subsidiary) is (22) branches in addition to (7) offices, only one mobile office and one representation office in Dubai, United Arab Emirates.

The Bank's personnel (head quarter and branches) reached (1,799) and (1,745) as at December 31, 2022 and 2021, respectively. The number of employees of the subsidiaries are (778) and (752) as at December 31, 2022 and 2021, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (02/2023) dated March 5, 2023.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2022.

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

	Country of incorporation and operations	Ownership %		Subscribed capital U.S. $	
		2022	2021	2022	2021
Arab Islamic Bank*	Palestine	52.06	52.06	96,219,252	91,719,252
Al-Wasata Securities Company	Palestine	100	100	5,000,000	5,000,000
PalPay Company**	Palestine	85	85	1,500,000	1,500,000
2000 Company	Palestine	100	100	100,000	100,000

* The ordinary general assembly of the Arab Islamic Bank, in its meeting held on April 17, 2022, decided to capitalize the amount of $4,500,000 from retained earnings and add it to the capital and distribute it as free shares to shareholders.

** In compliance with the instructions of the PMA No. (2) of 2021 regarding the amendment of Instructions No. (1) of 2018 regarding licensing of payment services companies, the instructions stipulate that the Bank's contribution to PalPay must be reduced to less than 50% by the end of 2021. Negotiations are still ongoing between the Bank and PMA on these instructions. The Bank has not, until the date of approval of the consolidated financial statements, reduced its shareholding in PalPay Company.

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.

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.

3. Accounting Policies

3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). The Bank complies with the applicable local laws and the instructions of the PMA.

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

The consolidated financial statements have been presented in US Dollar, which is the functional currency of the Bank.

3.2 Basis of consolidation of financial statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2022. 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 subsidiaries.

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

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

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

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

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

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

3.3 Changes in accounting polices

The accounting policies used in the preparation of the consolidated financial statements of the Bank are consistent with those used in the preparation of the annual consolidated financial statements for the prior year, except for the adoption of some amendments on the standards:

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

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

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

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

These amendments had no 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 recognises the proceeds from selling such items, and the costs of producing those items, in the statement of profit or loss.

These amendments had no 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. Loss-making contracts are defined as contracts whose unavoidable cost of meeting their obligations exceeds the economic benefits expected to be obtained under such contracts.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments were applied to contracts whose conditions were not met at the beginning of the fiscal year in accordance with the requirements of the amendments.

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

IFRS (1) First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS (1) First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16 (a) of IFRS (1) to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS (1).

These amendments had no 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. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

3.4 International Financial Reporting Standards, new interpretations and amendments issued but not yet effective

International financial standards and amendments issued but not yet effective until the date of the consolidated financial statements are listed below, and the Bank will apply these standards and amendments starting from the date of mandatory application:

IFRS (17) Insurance Contracts

In May 2017, the IASB issued IFRS (17) Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS (17) will replace IFRS (4) Insurance Contracts which was issued in 2005. IFRS (17) applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS (17) is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS (4), which are largely based on grandfathering previous local accounting policies, IFRS (17) provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS (17) is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach),
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS (17) is effective for reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. Early application is permitted, provided the entity also applies IFRS (9) and IFRS (15) on or before the date it first applies IFRS (17). This standard is not applicable to the Bank.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS (12)

In May 2021, the Board issued amendments to IAS (12), which narrow the scope of the initial recognition exception under IAS (12), so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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) under IFRS (9).

The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

Interest and similar income and expense

For all financial instruments measured at amortized cost, financial instruments designated at FVOCI and FVTPL, interest income or expense is recorded using the EIR.
The calculation takes into account all of the contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income are recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fee and commission income from providing services where performance obligations are satisfied at a limited period of time

These fees include what is collected through services provided during a specific period of time, as they are calculated for the same period, and include credit commissions and fees for providing the custodian service so that the customer receives and benefits from the benefits provided by the Bank at the same time.

The Bank's fees and commissions for services that are recognized over a specific period of time include:

Custodian fees: The Bank charges a fixed annual fee for providing custodian services to its clients, which includes custody of the securities purchased and processing any income from dividends and interest payments. The customer's share of these services is transferred evenly over the service period, and this fee is recognized as revenue evenly over that period, based on the time elapsed.

Credit fees that are an integral part of financial instruments such as loan grant fees, potentially exploited loan commitment fees and other related credit fees. Since the benefit of the services is transferred to the customer equally over a specified period, the fee is recognized as revenue on a straight-line basis.

Fee and commission income from providing services where performance obligations are satisfied at a point in time

Fees and commissions from providing services are recognized at a particular time once the Bank fulfills the performance obligations and transfers control of these services to the customer. This typically occurs when a transaction or service is completed, or for a fee associated with a particular performance, after performance criteria have been met. These include fees and commissions arising from negotiating or participating in a negotiation for a third party, such as a brokerage, whereby the Bank is obligated to successfully complete the transaction specified in the contract.

Brokerage fees: The Bank buys and sells securities on behalf of its clients and charges a fixed commission for each transaction. The obligation of the Bank is to execute these trades on behalf of the customer and the revenue is recognized as soon as each trade is executed (on the trade date) so that the commission is paid on the trade date. The Bank pays sales commission to agents on each deal for some of the brokerage work it does.

The Bank has chosen to apply the optional practical method, which allows it to calculate the commission immediately because its amortization period is one year or less.

Contract balances

The following are recognized in the consolidated statement of financial position:

- ‘Fees and commissions receivables’ included under ‘Other assets’, which represent the Bank’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortized cost and subject to the provision of expected credit losses.
- ‘Unearned fees and commissions’ included under ‘Other liabilities’, which represent the Bank’s obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognized when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognized as revenue when (or as) the Bank performs.

Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

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.

Net loss on financial assets and liabilities designated at fair value through profit or loss

Net loss on financial instruments at FVTPL represents non-trading derivatives held for risk management purposes used in economic hedge relationship but not qualifying for hedge accounting relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

Net loss on derecognition of financial assets measured at amortized cost or FVOCI

Net loss on derecognition of financial assets measured at amortized cost includes loss (or income) recognized on sale or derecognition of financial assets measured at amortized costs calculated as the difference between the book value (including impairment) and the proceeds received.

Service and rent revenues

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

Financial Instruments – Initial Recognition

Date of recognition

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

Initial measurement of financial instruments

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

Day 1 profit or loss

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

Measurement categories of financial assets and liabilities

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

- Amortized cost
- FVOCI
- FVTPL

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

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

Financial Assets and Liabilities

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

Business model assessment

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

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

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

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

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

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.
'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.
In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Derivatives recorded at fair value through profit or loss

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract.

It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.

- It is settled at a future date.

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

Equity instruments at FVOCI

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

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

Financial assets at fair value through profit or loss

Financial assets and financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in Consolidated income statement with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank’s own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the Consolidated income statement.

Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into consideration any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earnt on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in Consolidated income statement as other operating income when the right to the payment has been established.

Financial assets at amortized cost

They are the financial assets that the bank's management aims, according to its business model, to keep in order to collect contractual cash flows, which are represented by payments of principal and interest on the outstanding debt balance.

Financial assets are recognized upon purchase at cost plus acquisition expenses, and the premium/discount is amortized using the effective interest method, debited to or credited on the interest account, and any provisions resulting from impairment are deducted according to the calculation of the expected credit loss, and the expected credit loss is recorded in the consolidated income statement.

The amount of impairment in the value of financial assets at amortized cost represents the expected credit loss for financial assets at amortized cost.

It is not permissible to reclassify any financial assets from / to this item except in the cases specified in the International Financial Reporting Standards (and in the event that any of these assets is sold before its maturity date, the result of the sale is recorded in the consolidated income statement in a separate line item and disclosed in accordance with the requirements of the reporting standards international finance in particular).

Financial guarantees, letters of credit and unutilized facilities ceilings

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

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.

<u>Derecognition of financial assets and liabilities</u>

Derecognition due to substantial modification of terms and conditions

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

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

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

Derecognition other than for substantial modification.

A. Financial assets

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

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

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

Or

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

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

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

A transfer only qualifies for derecognition if either:

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

Or

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase, the Bank continues to recognize the fair value of the transferred asset or a purchase option (whichever is lower).

B. Financial liabilities

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

Impairment of financial assets

Overview of the ECL principles

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

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

The 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.

<u>The calculation of ECLs</u>

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

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

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, 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 deferred payments.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as percentage of the EAD.

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

The mechanics of the ECL method are summarized below:

Stage (1)	The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage (2)	When a 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.

Stage (3)	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.

Credit cards and other revolving credit facilities

The Bank's products include a number of cards and credit facilities granted to individuals and companies, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit the credit losses exposed to the contractual notice period, but instead calculates the expected credit losses over a period that reflects the Bank's expectations of the customer's behavior, the possibility of default and the Bank's future risk mitigation measures, which can include limiting or canceling the facilities.

The continuous assessment of the existence of a significant increase in the credit risk of the revolving credit facilities is similar to the assessments applied to other loans. This is based on shifts in the customer's internal credit score.

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

Expected credit losses, including the estimate of the expected period of exposure and the discount rate, are calculated 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 consolidated 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, financial securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS (9) is the same is it was under IAS (39) and PMA instructions.

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

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 appraisers.

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 regarding writ-offs are in line with International Financial Reporting Standard No. (9) and do not differ compared to International Accounting Standard No. (39) and the instructions of the PMA. Financial assets are written off either partially or completely only when the Bank ceases to recover. If the written-off amount is greater than the provision for accumulated losses, the difference is treated as an addition to the provision. Refunds are subsequently recorded in other revenues.

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.

Modification on facilities and financing

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to the otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties. Modifications may include extension of payments or agreeing to new financing terms. Classification decisions between Stage (2) and Stage (3) are determined on a case-by-case basis.

Lease Contracts

The Bank assesses at contract date whether it is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration paid.

The Bank applies a unified recognition and measurement methodology for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities of lease payments and right-of-use assets representing the right to use the underlying assets. Operating lease payments are recognized as an expense on a straight-line basis over the useful life of the lease.

Right of use assets

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

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

Lease Liabilities

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

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

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

Short-term leases and leases of low-value assets

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

Government grants

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

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 aim to achieve economic benefits.

The Bank uses valuation techniques that are appropriate in the circumstances that provide sufficient information to measure fair value, by maximizing the use of relevant observable data and minimizing the use of unobservable data.

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: Using market prices for similar financial instruments in active markets.

Level 2: Using valuation techniques other than market prices which is directly or indirectly observable.

Level 3: Using valuation techniques that is not based on observable market data.

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 on the basis of the nature, characteristics, risks and the level of fair value of the asset or liability.

Investment in associates

Investment in an associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in Bank’s share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

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

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

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investment in joint ventures is accounted for using the equity method. Under the equity method, investments in joint ventures appear in the consolidated statement of financial position at cost plus the subsequent changes in the Bank's share in the joint ventures net assets. Goodwill resulting from the purchase of joint ventures is recorded as part of the carrying value of the investment and is neither amortized nor individually tested for impairment.

The Bank's share in the operations of the joint ventures is recorded in the consolidated income statement. Unrealised profits and losses resulting from transactions between the Bank and the joint ventures are eliminated to the extent of the Bank's share in the joint ventures.

The financial statements for the joint ventures are prepared for the same reporting period as the Bank, using consistent accounting policies for transactions of similar nature. At the date of the consolidated financial statements, the Bank determines whether there is objective evidence indicating impairment in the value of the joint ventures. If such evidence exists, the Bank measures the impairment by deducting the carrying value of the investment from the expected recoverable amount and recognizes the difference in the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost after deducting the accumulated depreciation and accumulated impairment losses, if any. The cost of property, plant and equipment includes the cost incurred to replace any component of property, plant and equipment and financing expenses for long-term construction projects if the recognition conditions are met. All other expenditures are recognized in the consolidated income statement when incurred. Land is not depreciated. Depreciation is calculated using the straight-line method according to the expected useful life as follows:

	Useful life (Years)
Buildings and real estate	50
Furniture and equipment	6 - 17
Computers	5 - 10
Leasehold improvements	5
Vehicles	7 - 10

An item of property, plant and equipment and any significant parts thereof are derecognized upon disposal or when no future economic benefit is expected from the item's use or disposal. Any gain or loss on writing off the item, which is the difference between the proceeds from disposal and the net book value of the item, is recognized in the consolidated statement of income.

The residual values of items of property, plant and equipment, useful lives and methods of depreciation are reviewed each fiscal year and adjusted subsequently, if necessary.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The acquisition cost represents the total fair value of the consideration paid on the date of acquisition and the value of the non-controlling interests in the acquire. At any business combination, the Bank assesses the non-controlling interests' share of the acquired at fair value. Acquisition costs are recognized in the consolidated income statement.

Upon acquisition, the Bank evaluates and classifies the financial assets and liabilities of the acquired in accordance with the contractual terms and economic conditions at the date of acquisition.

In the case of a business combination as a result of the gradual acquisition, the investment previously classified as the acquired is measured at fair value on the date of acquisition. The difference between the fair value and the carrying amount of an investment previously recognized is recognized in the consolidated income statement.

Goodwill arising from the acquisition of subsidiaries is recognized at cost, which represents the increase in the consideration transferred from the Bank's share of net assets and liabilities acquired from the subsidiary. If the consideration is less than the fair value of the net assets of the subsidiary, the difference is recognized as gain in the consolidated income statement.

Subsequent to initial recognition, goodwill is recognized at cost less any accumulated impairment losses. For the purpose of carrying out a study on impairment of goodwill, goodwill is allocated at the acquisition date to the units or Bank of units generating cash and expected to benefit from the consolidation process, regardless of whether the other assets and liabilities of the Bank have been allocated to these units or not.

When an operating activity within a cash-generating unit is disposed of, the goodwill associated with the disposed operating activity is considered as part of the carrying amount of that activity to determine the amount of profit or loss. The amount of goodwill disposed of is determined according to the ratio of the carrying amount of the business disposed of to the net residual value of the cash-generating unit.

Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments properties, investments properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value and changes in fair value are recognized in the consolidated income statement.

Impairment of non-financial assets

The Bank assesses at the reporting date whether there is evidence that an asset is impaired. If there is any evidence, or when annual impairment testing is required, the Bank assesses the asset's recoverable amount. The asset's recoverable amount is the higher of the 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 assets or the Company's assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and reduced to its recoverable amount. In assessing the fair value in use, the future cash flows are discounted to their present fair 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, recent market transactions are taken into consideration if they are available. If it is not possible to identify such transactions, the evaluation form is used.

Intangible Assets

A- Goodwill

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

B- Other intangible assets

- Intangible assets that are acquired through a merger are recorded at their fair value at the date of acquisition. Intangible assets that are acquired through a method other than the merger are recorded at cost.
- Intangible assets are classified on the basis of an estimate of their useful life for a definite period or an indefinite period. Intangible assets that have a finite life are amortized during this life and the amortization is recorded in the consolidated income statement. As for intangible assets with an indefinite life, the impairment is reviewed at the date of the consolidated financial statements, and any impairment in their value is recorded in the consolidated income statement.

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

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

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

Financial derivatives

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

Derivatives held for hedging purposes

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

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

Assets obtained by the Bank by calling on collateral

Assets obtained by the Bank by calling on collateral are stated under “Other assets” at the carrying value of the Bank or fair value of the assets (whichever is lower).
These assets are revaluated individually at the date of the consolidated financial statements at fair value (after deducting sales cost). Any impairment is recorded in the consolidated income statement as a loss. Subsequently, the gain resulted from the appreciation of the assets value is recorded in the consolidated income statement to the extent of the impairment loss previously recorded.

Projects in progress

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

Offsetting

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

Capital cost of issuing or buying the Bank's shares

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

Assets managed on behalf of customers

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

Provisions

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

Taxes provision

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

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

Provision for end of service indemnity

Allocating employees' end of service indemnity is made in accordance with the applicable labor law in Palestine and the Bank's personnel affairs system. The Bank prepares an actuarial study to ensure the consistency of the provisions made with the requirements of IAS (19).

Foreign currencies

The consolidated financial statements of the Bank are presented in US Dollars, which is the Bank's base currency. Affiliates determine their base currencies. Items in the financial statements of subsidiaries are measured using the subsidiaries' base currency. Transactions in currencies other than US dollars during the year are converted into US dollars according to the exchange rates as on the date of the transaction. Monetary assets and liabilities and those receivable or payable in other currencies at the end of the year are translated into US dollars at the exchange rates as at the date of the consolidated financial statements. Transfer differences from profit or loss are shown in the consolidated income statement.

Earnings per share

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

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

Cash and cash equivalents

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

Segments information

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

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

Use of estimates

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

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

- Risk management (note 47)
- Capital management (note 49)

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

Impairment of goodwill

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

Useful lives of tangible and intangible assets

The management periodically re-estimates the useful lives of tangible and intangible assets for the purpose of calculating annual depreciation and amortization, depending on the general condition of those assets and estimates of the expected useful lives in the future. The impairment loss (if any) is recorded in the consolidated income statement.

Legal case provision

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

Provision for employees' benefits

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

Provision for income tax

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

Fair Value of financial instruments

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

Impairment of non-financial assets

Impairment is achieved when the carrying value of an asset or cash-generating unit exceeds its recoverable amount. The expected recoverable amount represents the fair value after deducting selling expenses or value in use, whichever is higher.

Determine the lease term for contracts with renewal and termination options

The Bank defines the term of the lease as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Investment properties

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

Provision for expected credit losses (ECL)

The provision for ECL is reviewed in accordance with the principles established by PMA 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 (financial instruments)

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

- Assessment of significant increase in credit risk (SICR)

An assessment is made of whether there has been a significant increase in credit risk since the date of its inception, as the Bank compares the risk of default for the expected life of the financial instrument at the end of each financial period with the risk of default at the origin of the financial instrument using the main concepts of risk management processes available to the Bank.

The significant increase in credit risk is assessed once every three months and separately for each credit risk exposure and based on three factors. If one of these factors indicates a significant increase in credit risk, the financial instrument is reclassified from stage one to stage two:

- Limits are set to measure the significant increase in credit risk based on the change in the risk of default for the financial instrument compared to its inception date.
- IFRS 9 (Financial Instruments) includes a presumption of a significant increase in the credit risk of financial instruments that have been defaulted and matured for more than 30 days. In this regard, the Bank has adopted a 30-days period.
- The Bank assumes a significant increase in financial instruments that have been defaulted and matured for 30 days during the previous measurement period.
- The Bank classifies the customers that the management deems to put them under surveillance within the second stage as an indicator of the significant increase in credit risk.
- Any schedules or adjustments made to clients' accounts during the evaluation period are taken into consideration as an indicator of the significant increase in credit risk.
- The Bank assumes a significant increase for customers whose economic sectors are deemed by management to be recognized as high risk.
- The Bank assumes a significant increase for customers who are reported to the Bank by regulatory and governmental authorities as having high risks.
- The Bank assumes a significant increase for customers who violate the terms of granting debt.
- Corporate clients whose cash flows with a Bank have decreased and the efficiency of their existing projects has decreased.
- Two degrees lower in the credit rating of financial assets.
- The Bank examines the concept of the material increase related to the assumed 30-days period if the Bank has reasonable and supported information without incurring unnecessary costs or efforts that show that the credit risk has not increased significantly since the initial recognition.
- Non-performing credit facilities for government employees in Gaza Strip and West Bank.

The change between stage two and stage three depends on whether the financial instruments are defaulted as at the end of the financial period. The method for determining the default of financial instruments in accordance with IFRS (9) is similar to the method for determining the occurrence of default for financial assets in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). As shown in the definition of default below.

- Macroeconomic factors, forward looking information

Historical information and current conditions, in addition to expected future events, according to reliable information, must be taken into consideration when measuring expected credit losses for each stage. Measuring and applying expected future information requires the Bank's management to make substantial judgments based on cooperation with international bodies with expertise in this field.

The probability of default, the assumed default loss, the effect on default, and the inputs used in the first and second stage of the ECL provision are designed based on variable economic factors (or change in macroeconomic factors) that are directly related to the credit risk of the portfolio.

Each of the macroeconomic scenarios used in calculating the expected credit loss is associated with variable macroeconomic factors. The estimates were used in calculating the expected credit losses for stage 1 and stage 2 using discounted weighted scenarios, which include future macroeconomic information for later years.

The baseline scenario is based on macroeconomic forecasts (eg. GDP and unemployment rates). The ups and downs of economic factors are prepared on the basis of possible alternative economic conditions.

- Definition of default

The definition of default used in measuring expected credit losses and used in assessing the change between stages is consistent with the definition of default used by the internal credit risk department of the Bank. The default is not defined by the standard, and there is a rebuttable assumption that the payment has been stopped for a period of 90 days or more, in addition to some other qualitative factors such as the customer facing financial difficulties, Bankruptcy, death and others.

- Expected Life

When measuring expected credit losses, the Bank takes into consideration the maximum extent of the expected cash flows, which the Bank considers exposed to the risk of impairment. All contractual obligations for life expectancy are considered, including advance payment and extension options. The expected life of some of the revolving credit facilities that do not have a fixed repayment date is measured based on the period in which the Bank is exposed to credit risks that the management cannot avoid.

- IFRS (9) governance

To ensure compliance with the requirements of the application of the standard and to ensure the progress of the application, a special steering committee has been established consisting of risk management director, credit department director, the Bank's financial director, in addition to information systems department director. The committee takes the necessary decisions regarding the implementation mechanisms, ensures that the general policies, work procedures, and systems are updated in line with the requirements of the standard, and presents the results of calculating expected credit losses based on the standard to senior management and to the board of directors through its committees.

4. Material partially owned subsidiaries

The financial information of subsidiaries that are not fully owned and have material non-controlling interest are as follow:

Proportionate of equity interest held by non-controlling interests:

Company	Country of incorporation and operation	2022 %	2021 %
Arab Islamic Bank	Palestine	47.94	47.94
PalPay	Palestine	15	15

Balances of non-controlling interests of the material subsidiaries:

	2022	2021
	U.S. $	U.S. $
Arab Islamic Bank	64,154,330	60,340,077
PalPay	363,555	388,309
	64,517,885	60,728,386

Profit/(Loss) allocated to non-controlling interest of the material subsidiaries:

	2022	2021
	U.S. $	U.S. $
Arab Islamic Bank	5,758,523	7,074,265
PalPay	(24,754)	47,398
	5,733,769	7,121,663
Share of non-controlling interest in comprehensive income items	(26,758)	507,731
	5,707,011	7,629,394

A summary of subsidiaries' financial information before eliminating all intra-Bank balances and transaction are as follow:

Summarized statement of financial position information as at December 31, 2022:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Total assets	1,660,725,735	6,479,846
Total liabilities	(1,521,442,198)	(3,080,780)
Total equity	139,283,537	3,399,066
Attributable to:		
Bank's shareholders	75,129,207	3,035,511
Non-controlling interests	64,154,330	363,555
	139,283,537	3,399,066

Summarized statement of financial position information as at December 31, 2021:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Total assets	1,736,706,005	4,483,359
Total liabilities	(1,605,727,500)	(1,495,831)
Total equity	130,978,505	2,987,528
Attributable to:		
Bank's shareholders	70,638,428	2,599,219
Non-controlling interests	60,340,077	388,309
	130,978,505	2,987,528

Summarized income statement information for the year ended December 31, 2022:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Revenues	77,352,577	12,678,582
General and administrative expenses	(52,543,406)	(11,866,046)
Depreciation and amortization	(4,744,130)	(230,998)
Gains from sale of investment properties	1,362,713	-
Other revenues	490,562	-
Profit before tax	21,918,316	581,538
Income tax	(8,839,950)	(170,000)
Profit of the year	13,078,366	411,538
Other comprehensive income items of the year	408,013	-
Total comprehensive income of the year	13,486,379	411,538

Summarized income statement information for the year ended December 31, 2021:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Revenues	71,243,876	7,608,518
General and administrative expenses	(48,581,436)	(6,516,144)
Depreciation and amortization	(4,700,589)	(263,554)
Other revenues	614,978	-
Profit before tax	18,576,829	828,820
Income tax	(6,887,655)	(149,618)
Profit of the year	11,689,174	679,202
Other comprehensive income items of the year	1,610,601	-
Total comprehensive income of the year	13,299,775	679,202

Summarized statement of cash flows information for the year ended December 31, 2022:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Operating activities	28,723,344	1,809,554
Investing activities	(6,234,446)	(82,715)
Financing activities	(46,209,292)	(25,472)
(Decrease) Increase in cash and cash equivalents	(23,720,394)	1,701,367

Summarized statement of cash flows information for the year ended December 31, 2021:

	Arab Islamic Bank	PalPay
	U.S. $	U.S. $
Operating activities	(11,907,737)	870,147
Investing activities	(3,194,776)	(498,036)
Financing activities	49,166,435	(44,827)
Increase in cash and cash equivalents	34,063,922	327,284

5. Cash and balances with Palestine Monetary Authority

This item comprises the following:

	2022	2021
	U.S. $	U.S. $
Cash on hand*	1,284,204,819	1,204,487,480
Balances with Palestine Monetary Authority:		
Current and 0n-demand accounts	13,407,516	25,737,190
Swap deposits maturing within 3 months or less	17,277,856	75,246,827
Statutory cash reserve	490,496,023	474,918,296
	1,805,386,214	1,780,389,793
Less: provision for expected credit losses	(1,870,759)	(809,904)
	1,803,515,455	1,779,579,889

* This item includes amounts held by The Palestinian Company for Money and Valuables Transfer (Aman) related to cash shipment and ATM feeding which amounted to U.S. $ 13,868,974 and U.S. $ 14,418,921 as at December 31, 2022 and December 31, 2021, respectively.

According to Palestine Monetary Authority’s instructions No. (10) of 2022 regarding the statutory cash reserve, the Bank should maintain a restricted-withdrawal compulsory reserve balance with Palestine Monetary Authority at 9% of the deposits included in the mandatory reserve pool, in addition to 100% of the stagnant balances. A percentage of 20% of this reserve is allocated to meet the results of clearing and settlements under the name "Settlement Reserve". The Bank may not dispose of the mandatory reserve with Palestine Monetary Authority, with the exception of the settlement reserve, which the Bank is allowed to exploit in accordance with the instructions in force. The Palestine Monetary Authority does not pay any interest on the balances of the statutory reserve.

PMA does not pay interest or profits on current accounts to the banks.

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	575,902,313	-	-	575,902,313
Net change during the year	(54,720,918)	-	-	(54,720,918)
Balance, end of the year	521,181,395	-	-	521,181,395

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	515,342,289	-	-	515,342,289
Net change during the year	60,560,024	-	-	60,560,024
Balance, end of the year	575,902,313	-	-	575,902,313

The movement on provision for Expected credit losses on balances at Palestine Monetary Authority is as follows:

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	809,904	-	-	809,904
Net re-measurement of expected credit losses	1,060,855	-	-	1,060,855
Balance, end of the year	1,870,759	-	-	1,870,759

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	-	-	-	-
Net re-measurement of expected credit losses	809,904	-	-	809,904
Balance, end of the year	809,904	-	-	809,904

6. Balances, deposits and investments at Banks and financial institutions

This item comprises the following:

	2022	2021
	U.S. $	U.S. $
Local Banks and financial institutions:		
Current accounts	672,531	356,894
Swap deposits maturing within 3 months or less	15,655,852	10,014,103
	16,328,383	10,370,997
Foreign Banks and financial institutions:		
Current and on-demand accounts	193,937,234	278,497,155
Deposits maturing within 3 months or less	334,507,934	467,507,816
Deposits maturing after 3 months	32,040,903	13,000,000
Swap deposits maturing within 3 months or less	10,000,000	10,000,000
	570,486,071	769,004,971
Investments at foreign Islamic Banks:		
Investments maturing within 3 months	3,108,626	3,108,626
Investments maturing after 3 months	6,000,000	3,000,000
	9,108,626	6,108,626
Less: provision for expected credit losses	(3,625,604)	(3,254,281)
	592,297,476	782,230,313

Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2022 and 2021 amounted to U.S.$ 245,984,167 and U.S.$ 278,497,155, respectively.

Restricted balances at banks and financial institutions as at December 31, 2022 and 2021 amounted to U.S. $ 75,823,828 and U.S. $ 83,831,814, respectively.

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	782,375,968	-	3,108,626	785,484,594
Net change during the year	(189,561,514)	-	-	(189,561,514)
Balance, end of the year	592,814,454	-	3,108,626	595,923,080

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	732,016,418	15,561,602	3,390,404	750,968,424
Net change during the year	34,797,948	-	(281,778)	34,516,170
Transfer to stage (1)	15,561,602	(15,561,602)	-	-
Balance, end of the year	782,375,968	-	3,108,626	785,484,594

The movement on provision for expected credit losses on balances at banks and financial institutions, and investments with Islamic Banks is as follows:

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	411,639	-	2,842,642	3,254,281
Net re-measurement of expected credit losses	105,339	-	265,984	371,323
Balance, end of the year	516,978	-	3,108,626	3,625,604

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	702,444	107,253	2,300,000	3,109,697
Net re-measurement of expected credit losses	(398,058)	-	542,642	144,584
Transfer to stage (1)	107,253	(107,253)	-	-
Balance, end of the year	411,639	-	2,842,642	3,254,281

7. Financial assets at fair value through profit or loss

This item represents the following:

	2022	2021
	U.S. $	U.S. $
Shares quoted in Palestine securities exchange	644,040	500,922
Shares quoted in Foreign Financial Markets	858,742	832,499
Investments in financial portfolio	3,484,850	3,920,428
Unquoted shares	4,180,653	5,000,000
	9,168,285	10,253,849

8. Direct credit facilities and Islamic financing

This item comprises the following:

	2022	2021
	U.S. $	U.S. $
<u>Retail</u>		
Loans*	820,116,949	720,602,942
Overdraft accounts	2,432,321	2,171,573
Credit cards	22,924,591	23,032,068
Current overdrafts	53,128,046	59,677,313
Islamic financing	386,312,087	273,043,151
<u>Large corporate and local regulators</u>		
Loans *	656,733,865	642,033,599
Overdraft accounts	108,060,343	104,964,392
Credit cards	368,785	277,726
Current overdrafts	2,392,858	5,474,475
Islamic financing	357,070,603	433,649,579
<u>Small and medium enterprises</u>		
Loans *	407,591,401	319,503,179
Overdraft accounts	92,290,952	82,092,984
Credit cards	5,726,913	4,862,682
Current overdrafts	4,560,216	6,815,209
Islamic financing	131,787,257	126,669,327
<u>Palestine National Authority</u>		
Loans *	276,578,704	367,717,331
Overdraft accounts and current overdrafts	275,596,256	280,287,909
Islamic financing	174,559,455	192,200,653
	3,778,231,602	3,645,076,092
Suspended interests, commissions and profits	(17,915,869)	(22,097,961)
Provision for expected credit losses	(188,260,868)	(169,770,971)
	3,572,054,865	3,453,207,160

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	22,097,961	20,413,098
Suspended interests and profits during the year	4,631,820	7,398,451
Suspended interests and profits transferred to revenues during the year	(3,754,246)	(3,857,115)
Suspended interest and profits related to credit facilities and Islamic financing being default for more than 6 years	(2,574,966)	(871,393)
Suspended interests written off	(2,473,847)	(976,878)
Currency variance	(10,853)	(8,202)
Balance, end of the year	17,915,869	22,097,961

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,209,608,392	1,250,567,070	184,900,630	3,645,076,092
Net change during the year	178,580,621	(9,659,002)	(27,071,802)	141,849,817
Transfers to stage (1)	116,385,424	(111,879,200)	(4,506,224)	-
Transfers to stage (2)	(225,166,897)	232,685,197	(7,518,300)	-
Transfers to stage (3)	(5,726,823)	(48,989,856)	54,716,679	-
Written off facilities	-	-	(8,694,307)	(8,694,307)
Balance, end of the year	2,273,680,717	1,312,724,209	191,826,676	3,778,231,602

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,303,183,967	947,191,330	187,498,122	3,437,873,419
Net change during the year	87,312,751	129,805,876	(5,602,805)	211,515,822
Transfers to stage (1)	205,108,779	(201,909,966)	(3,198,813)	-
Transfers to stage (2)	(370,248,539)	391,718,460	(21,469,921)	-
Transfers to stage (3)	(15,748,566)	(16,238,630)	31,987,196	-
Written off facilities	-	-	(4,313,149)	(4,313,149)
Balance, end of the year	2,209,608,392	1,250,567,070	184,900,630	3,645,076,092

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	22,697,443	43,223,196	103,850,332	169,770,971
Transfers to stage (1)	5,941,304	(2,623,563)	(3,317,741)	-
Transfers to stage (2)	(2,646,642)	6,566,446	(3,919,804)	-
Transfers to stage (3)	(5,084,686)	(1,047,028)	6,131,714	-
Additions during the year	7,524,369	48,210,222	26,115,254	81,849,845
Recovered during the year	(8,321,997)	(29,021,200)	(19,924,771)	(57,267,968)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(6,119,341)	(6,119,341)
Recovery of written off facilities	-	-	73,459	73,459
Foreign currency exchange differences	-	-	(46,098)	(46,098)
Balance, end of the year	20,109,791	65,308,073	102,843,004	188,260,868

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	23,040,316	29,151,994	98,519,423	150,711,733
Transfers to stage (1)	3,017,216	(1,962,268)	(1,054,948)	-
Transfers to stage (2)	(2,559,838)	5,375,851	(2,816,013)	-
Transfers to stage (3)	(146,188)	(497,451)	643,639	-
Additions during the year	4,595,117	26,786,301	38,785,553	70,166,971
Recovered during the year	(5,249,180)	(15,631,231)	(26,818,424)	(47,698,835)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(3,441,756)	(3,441,756)
Recovery of written off facilities	-	-	2,456	2,456
Foreign currency exchange differences	-	-	30,402	30,402
Balance, end of the year	22,697,443	43,223,196	103,850,332	169,770,971

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	377,055,962	657,635,824	43,835,261	1,078,527,047
Net change during the year	163,267,145	46,112,869	(1,207,649)	208,172,365
Transfers to stage (1)	81,574,606	(78,841,840)	(2,732,766)	-
Transfers to stage (2)	(65,238,865)	68,707,097	(3,468,232)	-
Transfers to stage (3)	(1,569,065)	(5,222,654)	6,791,719	-
Written off facilities	-	-	(1,785,421)	(1,785,421)
Balance, end of the year	555,089,783	688,391,296	41,432,912	1,284,913,991

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	433,379,011	520,213,150	43,238,657	996,830,818
Net change during the year	47,075,138	39,017,342	(3,764,947)	82,327,533
Transfers to stage (1)	67,623,725	(66,169,255)	(1,454,470)	-
Transfers to stage (2)	(167,186,624)	170,338,077	(3,151,453)	-
Transfers to stage (3)	(3,835,288)	(5,763,490)	9,598,778	-
Written off facilities	-	-	(631,304)	(631,304)
Balance, end of the year	377,055,962	657,635,824	43,835,261	1,078,527,047

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	3,091,987	22,029,370	24,571,583	49,692,940
Transfers to stage (1)	2,651,961	(2,148,874)	(503,087)	-
Transfers to stage (2)	(420,817)	2,313,615	(1,892,798)	-
Transfers to stage (3)	(5,050,420)	1,253,088	3,797,332	-
Additions during the year	2,145,335	26,592,166	2,580,660	31,318,161
Recovered during the year	(1,831,573)	(15,841,758)	(6,291,732)	(23,965,063)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(1,785,421)	(1,785,421)
Recovery of written off facilities	-	-	-	-
Foreign currency exchange differences	-	-	(4,435)	(4,435)
Balance, end of the year	586,473	34,197,607	20,472,102	55,256,182

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	4,671,881	21,759,327	23,595,430	50,026,638
Transfers to stage (1)	1,587,472	(854,464)	(733,008)	-
Transfers to stage (2)	(2,350,761)	2,552,506	(201,745)	-
Transfers to stage (3)	(30,506)	(127,788)	158,294	-
Additions during the year	1,323,266	9,210,795	8,489,627	19,023,688
Recovered during the year	(2,109,365)	(10,511,006)	(6,105,712)	(18,726,083)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(630,650)	(630,650)
Recovery of written off facilities	-	-	(8,748)	(8,748)
Foreign currency exchange differences	-	-	8,095	8,095
Balance, end of the year	3,091,987	22,029,370	24,571,583	49,692,940

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	367,263,182	106,279,350	66,400,849	539,943,381
Net change during the year	112,992,221	5,650,721	(12,624,363)	106,018,579
Transfer to stage (1)	12,740,805	(11,216,571)	(1,524,234)	-
Transfer to stage (2)	(29,610,203)	31,270,475	(1,660,272)	-
Transfer to stage (3)	(3,403,828)	(8,175,528)	11,579,356	-
Written off facilities	-	-	(4,005,219)	(4,005,219)
Balance, end of the year	459,982,177	123,808,447	58,166,117	641,956,741

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	282,314,230	102,443,712	72,334,228	457,092,170
Net change during the year	100,573,187	(7,172,645)	(7,771,737)	85,628,805
Transfer to stage (1)	34,350,716	(32,724,206)	(1,626,510)	-
Transfer to stage (2)	(43,982,311)	49,333,338	(5,351,027)	-
Transfer to stage (3)	(5,992,640)	(5,600,849)	11,593,489	-
Written off facilities	-	-	(2,777,594)	(2,777,594)
Balance, end of the year	367,263,182	106,279,350	66,400,849	539,943,381

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	3,265,647	5,589,473	36,157,650	45,012,770
Transfer to stage (1)	1,052,038	(375,316)	(676,722)	-
Transfer to stage (2)	(301,616)	1,215,048	(913,432)	-
Transfer to stage (3)	(34,053)	(1,482,895)	1,516,948	-
Additions during the year	917,566	3,291,349	5,528,792	9,737,707
Recovered during the year	(3,085,224)	(3,448,447)	(8,258,239)	(14,791,910)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(4,005,219)	(4,005,219)
Recovery of written off facilities	-	-	-	-
Foreign currency exchange differences	-	-	(5,145)	(5,145)
Balance, end of the year	1,814,358	4,789,212	29,344,633	35,948,203

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	3,136,224	2,839,444	36,829,627	42,805,295
Transfer to stage (1)	1,182,893	(718,378)	(464,515)	-
Transfer to stage (2)	(470,186)	1,462,814	(992,628)	-
Transfer to stage (3)	(113,681)	(356,575)	470,256	-
Additions during the year	1,642,341	3,941,677	15,810,498	21,394,516
Recovered during the year	(2,111,944)	(1,579,509)	(12,717,993)	(16,409,446)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(2,777,291)	(2,777,291)
Recovery of written off facilities	-	-	(4,059)	(4,059)
Foreign currency exchange differences	-	-	3,755	3,755
Balance, end of the year	3,265,647	5,589,473	36,157,650	45,012,770

A summary of the movement on gross carrying amount of direct credit facilities and Islamic financing for large corporate and local regulators is as follows:

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	625,083,355	486,651,896	74,664,520	1,186,399,771
Net change during the year	15,792,733	(61,422,592)	(13,239,790)	(58,869,649)
Transfer to stage (1)	22,070,013	(21,820,789)	(249,224)	-
Transfer to stage (2)	(130,317,829)	132,707,625	(2,389,796)	-
Transfer to stage (3)	(753,930)	(35,591,674)	36,345,604	-
Written off facilities	-	-	(2,903,667)	(2,903,667)
Balance, end of the year	531,874,342	500,524,466	92,227,647	1,124,626,455

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	793,603,429	324,534,468	71,925,237	1,190,063,134
Net change during the year	(106,654,170)	97,961,179	5,933,879	(2,759,112)
Transfer to stage (1)	103,134,338	(103,016,505)	(117,833)	-
Transfer to stage (2)	(159,079,604)	172,047,045	(12,967,441)	-
Transfer to stage (3)	(5,920,638)	(4,874,291)	10,794,929	-
Written off facilities	-	-	(904,251)	(904,251)
Balance, end of the year	625,083,355	486,651,896	74,664,520	1,186,399,771

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,566,262	15,604,353	43,121,099	61,291,714
Transfer to stage (1)	2,237,305	(99,373)	(2,137,932)	-
Transfer to stage (2)	(1,924,209)	3,037,783	(1,113,574)	-
Transfer to stage (3)	(213)	(817,221)	817,434	-
Additions during the year	3,707,110	18,326,707	18,005,802	40,039,619
Recovered during the year	(3,405,200)	(9,730,995)	(5,374,800)	(18,510,995)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(328,701)	(328,701)
Recovery of written off facilities	-	-	73,459	73,459
Foreign currency exchange differences	-	-	(36,518)	(36,518)
Balance, end of the year	3,181,055	26,321,254	53,026,269	82,528,578

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	2,779,041	4,553,223	38,094,366	45,426,630
Transfer to stage (1)	246,851	(389,426)	142,575	-
Transfer to stage (2)	261,109	1,360,531	(1,621,640)	-
Transfer to stage (3)	(2,001)	(13,088)	15,089	-
Additions during the year	309,133	13,633,829	14,485,428	28,428,390
Recovered during the year	(1,027,871)	(3,540,716)	(7,994,719)	(12,563,306)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	1,499	1,499
Recovery of written off facilities	-	-	(20,051)	(20,051)
Foreign currency exchange differences	-	-	18,552	18,552
Balance, end of the year	2,566,262	15,604,353	43,121,099	61,291,714

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	840,205,893	-	-	840,205,893
Net change during the year	(113,471,478)	-	-	(113,471,478)
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Written off facilities	-	-	-	-
Balance, end of the year	726,734,415	-	-	726,734,415

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	793,887,297	-	-	793,887,297
Net change during the year	46,318,596	-	-	46,318,596
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Written off facilities	-	-	-	-
Balance, end of the year	840,205,893	-	-	840,205,893

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	13,773,547	-	-	13,773,547
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Additions during the year	754,358	-	-	754,358
Balance, end of the year	14,527,905	-	-	14,527,905

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	12,453,170	-	-	12,453,170
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Additions during the year	1,320,377	-	-	1,320,377
Balance, end of the year	13,773,547	-	-	13,773,547

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	18,547,616	15,478,580
Additions	6,119,341	3,441,756
Recovered provision during the year	(1,565,736)	(276,767)
Written off provision	(2,381)	(99,170)
Currency variances	-	3,217
Balance, end of the year	23,098,840	18,547,616

The recoveries of defaulted credit facilities and Islamic financing included in stage (3) as at December 31, 2022 and 2021 amounted to U.S. $ 19,924,771 and U.S. $ 26,818,424, respectively.

* Loans are presented net of their related interest and commission received in advance which amounted to U.S. $ 3,472,296 and U.S. $ 4,655,044 as at December 31, 2022 and 2021, respectively. In addition, direct Islamic financing presented net of unearned profits amounted to U.S. $ 91,694,422 and U.S. $ 96,181,501 as at December 31, 2022 and 2021, respectively.

- Gross direct credit facilities and Islamic financing net of suspended interest, commissions and profits according to PMA regulations as at December 31, 2022 and 2021 amounted to U.S. $454,769,031 and U.S. $ 261,395,641 representing (12.09%) and (7.21%) of direct credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- Defaulted direct credit facilities and Islamic financing net of suspended interests, commissions and profits as at December 31, 2022 and 2021 amounted to U.S. $ 173,910,807 and U.S. $ 162,802,669 representing (4.60%) and (4.49%) of direct credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- According to PMA instructions number (1/2008), defaulted credit facilities and Islamic financing for more than 6 years were excluded from the Bank's consolidated financial statements. These defaulted credit facilities and Islamic financing amounted to U.S. $ 40,518,358 and U.S. $ 33,792,338 as at December 31, 2022 and 2021 and the balance of provision and suspended interest and profits for defaulted accounts amounted to U.S. $ 35,056,594 and U.S. $ 31,871,290, respectively.
- Direct credit facilities and Islamic financing granted to Palestine National Authority as at December 31, 2022 and 2021 amounted to U.S. $ 726,734,415 and U.S. $ 840,205,893 representing (19.23%) and (23.05%) of gross direct credit facilities and Islamic financing, respectively.
- Direct credit facilities and Islamic financing guaranteed by Palestine National Authority as at December 31, 2022 and 2021 amounted to U.S. $ 16,293,051 and U.S. $ 27,940,226 representing (0.43%) and (0.77%) of gross direct credit facilities and Islamic financing, respectively.
- The fair value of collaterals obtained in lieu of direct credit facilities and Islamic financing amounted to U.S. $ 1,324,271,442 and U.S. $ 1,299,618,818 as at December 31, 2022 and 2021, respectively.
- Credit facilities and Islamic financing granted to non-residents amounted to U.S. $ 13,783,394 and U.S. $ 13,830,380 as at December 31, 2022 and 2021, respectively.
- Credit facilities and Islamic financing were written-off during the year that weren't provided before amounted to U.S. $ 1,921,400 and U.S. $ 2,052,766 as at December 31, 2022 and 2021, respectively.

- Credit facilities and Islamic financing granted to the public sector employees as at December 31, 2022 and 2021 amounted to U.S. $ 594,457,998 and U.S. $ 756,906,873 representing 15.73% and 15.83% of gross direct credit facilities and Islamic financing, respectively. Which also represents 99.52% and 138.51% of regulatory capital as of December 31, 2022 and 2021, respectively.

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

	2022	2021
	U.S. $	U.S. $
Real estate and construction	944,288,866	796,287,072
Palestine National Authority	726,734,415	840,205,893
Consumer commodities	705,890,768	720,109,203
Retail and wholesale	634,162,314	585,953,294
Services sector	387,353,934	375,969,549
Manufacturing	213,950,768	179,248,966
Agricultural	47,159,932	47,374,979
Financial sector	42,846,717	22,854,629
Tourism	40,350,558	40,025,059
Transportation	17,577,461	14,949,487
	3,760,315,733	3,622,978,131

The Bank grants credit facilities partially guaranteed by loan guarantee institutions. The distribution of these credit facilities is as follows:

	December 31, 2022			
	Granted amount	Outstanding balance	Guarantor share	Defaulted debts
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	25,598,160	18,786,214	70	3,014,350
Operating loans	24,875,484	19,110,145	50-75	669,943
Development loans	21,298,972	17,893,892	50	7,461,726
Small and medium sized projects' loans	49,277,389	39,273,808	50-75	2,695,622
	121,050,005	95,064,059		13,841,641

	December 31, 2021			
	Granted amount	Outstanding balance	Guarantor share	Defaulted debts
Type of credit facilities	U.S. $	U.S. $	%	U.S. $
Production loans	20,499,956	15,392,510	70	2,623,363
Operating loans	12,898,314	9,918,272	60	885,511
Development loans	26,004,505	21,018,094	50	7,427,634
Small and medium sized projects' loans	28,396,578	21,131,159	35-100	2,930,306
	87,799,353	67,460,035		13,866,814

9. Financial assets at fair value through other comprehensive income

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

	Quoted shares	Unquoted financial assets	Investments in financial portfolios	Total
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2022				
Local	24,968,480	9,912,962	-	34,881,442
Foreign	21,994,037	1,469,322	1,181,432	24,644,791
	46,962,517	11,382,284	1,181,432	59,526,233
December 31, 2021				
Local	17,480,998	3,535,467	-	21,016,465
Foreign	19,560,839	1,677,958	-	21,238,797
	37,041,837	5,213,425	-	42,255,262

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	(1,692,549)	(4,999,792)
Change in fair value through other comprehensive income items	4,685,412	3,337,959
Reserve of financial assets at fair value through comprehensive income recognized directly in retained earnings	351,792	(30,716)
Balance, end of the year	3,344,655	(1,692,549)

The sales were made during the year with the aim of financing some other investment activities and with the aim of exiting some investments that did not achieve the required return required by the Bank and its subsidiaries.

10. Financial assets at amortized cost

Financial assets at amortized cost compromise of the following:

	Treasury bills	Quoted bonds	Unquoted bonds	Islamic Sukuk	Provision for ECL	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2022						
Local	40,593,630	-	12,500,000	-	(1,140,470)	51,953,160
Foreign	112,745,462	39,103,971	-	41,673,325	(4,169,446)	189,353,312
	153,339,092	39,103,971	12,500,000	41,673,325	(5,309,916)	241,306,472
2021						
Local	66,557,446	-	12,500,000	-	(791,342)	78,266,104
Foreign	78,179,156	38,858,035	-	35,913,425	(2,371,303)	150,579,313
	144,736,602	38,858,035	12,500,000	35,913,425	(3,162,645)	228,845,417

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	213,813,466	14,531,171	3,663,425	232,008,062
Net change during the year	16,366,311	(1,517,885)	(240,100)	14,608,326
Transfer to stage (1)	494,669	(494,669)	-	-
Transfer to stage (2)	(1,000,000)	1,000,000	-	-
Balance, end of the year	229,674,446	13,518,617	3,423,325	246,616,388

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	180,446,295	26,073,566	1,263,425	207,783,286
Net change during the year	34,849,749	(10,724,973)	100,000	24,224,776
Transfer to stage (1)	2,081,832	(2,081,832)	-	-
Transfer to stage (2)	(1,264,410)	1,264,410	-	-
Transfer to stage (3)	(2,300,000)	-	2,300,000	-
Balance, end of the year	213,813,466	14,531,171	3,663,425	232,008,062

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	951,545	145,805	2,065,295	3,162,645
Net re-measurement of expected credit loss provision during the year	832,267	(43,026)	1,358,030	2,147,271
Transfer to stage (1)	3,733	(3,733)	-	-
Transfer to stage (2)	(868)	868	-	-
Balance, end of the year	1,786,677	99,914	3,423,325	5,309,916

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	952,904	67,727	1,263,425	2,284,056
Net re-measurement of expected credit loss provision during the year	73,380	5,209	800,000	878,589
Transfer to stage (1)	23,256	(23,256)	-	-
Transfer to stage (2)	(96,125)	96,125	-	-
Transfer to stage (3)	(1,870)	-	1,870	-
Balance, end of the year	951,545	145,805	2,065,295	3,162,645

Interest on U.S. Dollar financial assets at amortized cost ranges between 1.35% and 8.75%.

Interest on Jordanian Dinar financial assets at amortized cost ranges between 5.14% and 6.49%.

Interest on Kuwaiti Dinar financial assets at amortized cost ranges between 5.00% and 6.00%.

Local financial assets at amortized cost includes the Bank's investment in the Palestinian governmental treasury bills according to circular PMA Number (64/2016), which the upper limit of the price discount of treasury bills issued in New Israeli Shekel is 8% and in U.S. $ is (6 months LIBOR +3%), annually. Matured treasury bills amounted to U.S $ 31,452,485, remaining treasury bills matures within 7 months.

Foreign governments' treasury bonds represent the Bank's investment in listed Jordanian treasury bonds, where the interest rate on these assets ranges from 5.14% to 6.49% and matures within a period of 6 months to four years.

Profit on Islamic Sukuk ranges between 3.23 % and 8.78 % and matures within a period from 3 months to 9 years.

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

11. Investment in associates and a joint venture

Following are the details of investments in associates, as at December 31, 2022 and 2021:

		Ownership		Subscribed Share Capital	
	Country of Incorporation	2022 %	2021 %	2022 U.S. $	2021 U.S. $
Abraj Co, for Development & Investment (Abraj) *	Palestine	21	21	7,233,420	4,751,499
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman) **	Palestine	30	30	865,421	975,618
Qudra for energy solutions***	Palestine	50	50	3,898,011	3,943,935
				11,996,852	9,671,052

* Abraj Company for Development and Investment (Abraj) was incorporated in 2008 in Palestine with goals of conducting all kinds of construction, real estate and commercial activities. Abraj's paid-in share capital consists of 21.4 million shares at a U.S. $ 1 par value per share.

** The Palestinian Company for Money and Valuables Transfer (Aman) was incorporated in 2008 in Palestine. Aman provides money transfer services alongside transferring valuable collectibles and commercial papers inside and outside Palestine. Aman's paid-in share capital consists of 1 million shares at a U.S. $ 1 par value per share.

*** Qudra Energy Solutions Company (the Company) was incorporated as a private limited stock company during 2020 with a capital of 8,000,000 shares with U.S. $ 1 par value per share. The bank owns 50% of the Company's shares. The Company is jointly managed in cooperation with the he National Aluminum & profile company (NAPCO), so the company has been classified as a joint venture. The Company works to provide modern renewable energy solutions to individuals and organizations. The paid-in share capital of the Company as at December 31, 2022 amounted to U.S. $ 8,000,000. The company commenced its operational activities during 2021.

Following is the movement on investment in associates and a joint venture:

	2022 U.S. $	2021 U.S. $
Balance, beginning of the year	9,671,052	5,946,380
Bank's share of results of associates	2,671,724	516,480
Bank's share of results of joint venture	(45,924)	(56,065)
Payments related to investment in a joint venture	-	4,000,000
Distributed cash dividends	(300,000)	(735,743)
Balance, end of the year	11,996,852	9,671,052

Following is summarized information related to the Bank's investments in associates:

	Abraj		Aman	
	2022	2021	2022	2021
	U.S. $	U.S. $	U.S. $	U.S. $
The financial position of associates:				
Total assets	51,671,050	35,462,386	4,825,643	4,308,459
Total liabilities	(12,649,181)	(7,624,495)	(2,276,764)	(1,383,967)
Total equity	39,021,869	27,837,891	2,548,879	2,924,492
Bank's share	8,194,593	5,847,957	764,664	877,348
Book value before adjustments	8,194,593	5,847,957	764,664	877,348
Adjustments	(961,173)	(1,096,458)	100,757	98,270
Book value after adjustments	7,233,420	4,751,499	865,421	975,618
Revenues and results of operations:				
Net revenues	1,690,001	2,000,041	4,828,323	2,093,984
Operational, administrative and general expenses	(678,520)	(931,918)	(3,727,204)	(752,390)
Finance costs	(240,893)	(251,693)	(48,045)	(21,248)
Gains from revaluation of investment properties	16,208,664	-	-	-
Other (expenses) revenues, net	(75,954)	35,161	(158,541)	88,708
Profit before tax	16,903,298	851,591	894,533	1,409,054
Tax expense	(5,084,629)	(76,000)	(261,857)	(230,367)
Net profit after tax of the year	11,818,669	775,591	632,676	1,178,687
Comprehensive income items	-	-	-	-
Total comprehensive income	11,818,669	775,591	632,676	1,178,687
Bank's share	2,481,921	162,874	189,803	353,606

Following is the movement of the financial information related to the Banks' investment in Qudra company:

	2022	2021
	U.S. $	U.S. $
Statement of financial position for joint venture		
Total assets	24,047,902	8,314,701
Total liabilities	(16,251,880)	(426,831)
Net equity	7,796,022	7,887,870
Banks' share	3,898,011	3,943,935
Carrying amount of the investment	3,898,011	3,943,935
Revenues and results of operations		
Revenues	3,559,282	1,070,131
Results of operations	(91,848)	(112,130)
Banks' share of results of operations	(45,924)	(56,065)

12. Investment properties

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	25,962,178	25,884,919
Additions during the year	454,745	362,999
Sale of investment properties *	(3,792,861)	-
Transfers from projects in progress (note 14)	73,533	-
Change in fair value during the year	233,147	(285,740)
Balance, end of the year	22,930,742	25,962,178

* During the year, the Arab Islamic Bank (a subsidiary) sold part of its investments properties which resulted in a loss amounted to U.S $ 249,870 recorded in the consolidated income statement.

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

2022	Buildings and real estate *	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Right of use assets	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	47,779,280	113,025,292	17,949,438	15,007,205	4,834,169	43,818,302	242,413,686
Additions and transfers from projects in progress	568,210	4,313,435	563,985	688,274	811,217	2,488,562	9,433,683
Disposals	-	(793,167)	-	-	(494,106)	(413,193)	(1,700,466)
Balance, end of the year	48,347,490	116,545,560	18,513,423	15,695,479	5,151,280	45,893,671	250,146,903
Accumulated Depreciation:							
Balance, beginning of the year	8,978,248	77,872,843	15,395,036	10,168,599	1,691,669	12,409,477	126,515,872
Depreciation for the year	622,111	7,797,253	1,119,605	998,186	380,170	4,625,853	15,543,178
Disposals	-	(670,588)	-	-	(396,752)	(120,232)	(1,187,572)
Balance, end of the year	9,600,359	84,999,508	16,514,641	11,166,785	1,675,087	16,915,098	140,871,478
Net book value	38,747,131	31,546,052	1,998,782	4,528,694	3,476,193	28,978,573	109,275,425

2021	Buildings and real estate *	Furniture and equipment	Computers	Leasehold improvements	Vehicles	Right of use assets	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	47,779,280	107,849,386	17,485,357	13,467,721	4,710,511	41,776,137	233,068,392
Additions and transfers from projects in progress	-	5,775,325	524,238	1,539,484	604,319	2,917,015	11,360,381
Disposals	-	(599,419)	(60,157)	-	(480,661)	(874,850)	(2,015,087)
Balance, end of the year	47,779,280	113,025,292	17,949,438	15,007,205	4,834,169	43,818,302	242,413,686
Accumulated Depreciation:							
Balance, beginning of the year	8,356,599	71,174,830	14,156,307	8,093,293	1,690,186	8,166,800	111,638,015
Depreciation for the year	621,649	6,961,633	1,295,497	2,075,306	322,222	4,535,390	15,811,697
Disposals	-	(263,620)	(56,768)	-	(320,739)	(292,713)	(933,840)
Balance, end of the year	8,978,248	77,872,843	15,395,036	10,168,599	1,691,669	12,409,477	126,515,872
Net book value	38,801,032	35,152,449	2,554,402	4,838,606	3,142,500	31,408,825	115,897,814

* Buildings and real estate include parcels of land owned by the Bank to carry out its Banking activities amounted to U.S. $ 15,700,255 as at December 31, 2022 and 2021.

Property, plant and equipment include U.S. $ 83,399,376 and U.S. $ 77,945,430 of fully depreciated assets that are still used in the Bank's operations as at December 31, 2022 and 2021, respectively.

14. Projects in progress

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	1,366,792	2,680,297
Additions	577,541	1,644,400
Impairment	-	(1,056,516)
Transfers to investment properties (note 12)	(73,533)	-
Transfers to property, plant and equipment and right of use assets (note 13)	(1,221,257)	(1,901,389)
Balance, end of the year	649,543	1,366,792

As at December 31, 2022 the estimated cost to complete projects in progress amounted to U.S. $ 1,684,293 Projects are expected to be completed during the year 2023.

15. Intangible assets

	Goodwill*	Computer software	Total
	U.S. $	U.S. $	U.S. $
Cost			
Balance as at January 1, 2022	3,774,558	25,841,995	29,616,553
Additions	-	2,699,011	2,699,011
Balance as at December 31, 2022	3,774,558	28,541,006	32,315,564
Amortization			
Balance as at January 1, 2022	-	15,002,660	15,002,660
Additions	-	2,328,018	2,328,018
Balance as at December 31, 2022	-	17,330,678	17,330,678
Net Book Value			
As at December 31, 2022	3,774,558	11,210,328	14,984,886

	Goodwill*	Computer software	Total
	U.S. $	U.S. $	U.S. $
Cost			
Balance as at January 1, 2021	3,774,558	24,541,092	28,315,650
Additions	-	1,300,903	1,300,903
Balance as at December 31, 2021	3,774,558	25,841,995	29,616,553
Amortization			
Balance as at January 1, 2021	-	12,887,255	12,887,255
Additions	-	2,115,405	2,115,405
Balance as at December 31, 2021	-	15,002,660	15,002,660
Net Book Value			
As at December 31, 2021	3,774,558	10,839,335	14,613,893

* The impairment of the expected recoverable value of the goodwill resulting from the acquisition of the Arab Islamic Bank was studied based on the fair value after deducting the selling costs, according to the trading prices of the Arab Islamic Bank share (level one) as on December 31, 2022 and 2021. The book value of the investment was also compared to its market value, and to the sale of similar investments in the financial markets, so that the market value of the investment was greater than the book value, and hence, it did not result in any impairment losses on the recorded goodwill.

16. Other assets

This item comprises the following:

	2022	2021
	U.S. $	U.S. $
Accrued interests and commissions	13,063,243	11,194,422
Accounts receivable and temporary advance payments, net*	10,626,717	11,743,498
In advance payments	8,997,925	6,451,191
Positive financial derivatives	7,531,513	-
Clearing checks	2,997,174	10,003,474
Assets obtained by the Bank by calling on collateral**	2,389,249	779,869
Stationery and printings material and equipment in stores	2,385,007	2,324,916
Other current assets	2,263,795	1,840,817
	50,254,623	44,338,187

* Accounts receivable and temporary advance payments are shown in net. During 2021, provision was recorded in an amount of U.S. $ 300,000. During 2022, the Bank fully recovered the provision recorded.

** This item comprises the movement on assets obtained by Bank calling on collateral:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	779,869	1,867,160
Sale of properties	-	(419,760)
Impairment	-	(667,531)
Additions	1,609,380	-
Balance, end of the year	2,389,249	779,869

17. Palestine Monetary Authority's deposits

This item comprises the following:

	2022	2021
	U.S. $	U.S. $
Current accounts	3,317,152	46,296,880
Term deposits maturing within 3 months	70,881,775	16,042,099
SWAP deposits maturing in less than 3 months	15,593,985	73,472,818
Deposits maturing in more than 3 months	89,311,038	86,627,310
Motivational deposits maturing in more than 3 months*	20,000,000	20,000,000
	199,103,950	242,439,107

* This item represents the value of motivational deposits from PMA to the Arab Islamic Bank (subsidiary company) with the aim of mitigating the economic effects of the Corona Virus (Covid 19) crisis on the activities of the subsidiary and the losses it sustained as a result of postponing customer installments during the year 2020. These deposits mature within 3 years from the date of their deposit, whereas PMA's return is 0.5% on these deposits.

18. Banks and financial institutions' deposits

This item comprises the following:

	Current and on-demand accounts	Term deposits maturing within 3 months	SWAP deposits	Term deposits maturing in more than 3 months	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2022					
Local	270,152	39,746,711	11,483,650	2,932,086	54,432,599
Foreign	23,914,412	-	15,321,000	-	39,235,412
	24,184,564	39,746,711	26,804,650	2,932,086	93,668,011
2021					
Local	1,010,601	18,996,455	10,000,000	2,000,000	32,007,056
Foreign	11,425,149	66,629,663	10,000,000	-	88,054,812
	12,435,750	85,626,118	20,000,000	2,000,000	120,061,868

19. Customers' deposits

	2022	2021
	U.S. $	U.S. $
Customers' deposits		
Current and on-demand deposits	1,985,682,703	1,950,804,278
Saving deposits	1,394,367,423	1,308,094,915
Time deposits	664,789,756	789,999,818
Debit balances – temporarily credit	18,658,495	18,904,458
	4,063,498,377	4,067,803,469
Unrestricted investment accounts		
Saving deposits	601,739,408	569,584,056
Time deposits	301,375,570	376,163,801
	903,114,978	945,747,857
	4,966,613,355	5,013,551,326

- Public sector deposits amounted to U.S. $ 228,679,521 and U.S. $ 233,076,002 representing 4.60% and 4.65% of total deposits as at December 31, 2022 and 2021, respectively.
- Non-bearing interest and profit deposits amounted to U.S. $ 3,398,708,621 and U.S. $ 3,277,803,651 representing 68.43% and 65.38% of total deposits as at December 31, 2022 and 2021, respectively.
- Dormant deposits amounted to U.S. $ 121,126,284 and U.S. $ 129,318,773 representing 2.44% and 2.58% of total deposits as at December 31, 2022 and 2021, respectively.
- Restricted deposits amounted to U.S. $ 82,085,901 and U.S. $ 113,799,938 representing 1.65% and 2.27% of total deposits as at December 31, 2022 and 2021, respectively.

20. Cash margins

This item represents cash margins against:

	2022	2021
	U.S. $	U.S. $
Direct credit facilities and Islamic financing	223,989,287	215,141,761
Indirect credit facilities and Islamic financing	34,968,125	34,946,784
Others	41,153,075	41,499,731
	300,110,487	291,588,276

The interest rate on these margins ranges between 0.1% and 5.25%, and they are due within a period of one month to five years.

21. Subordinated Loan

During 2016, the Bank obtained the subordinated loan in accordance with a subordinated loan agreement signed on June 20, 2016, with International Finance Corporation (IFC) in the amount of U.S. $ 50 million payable on 10 semiannual installments for 10 years with 5 years of grace period. The first installment is due on December 15, 2021 and the last installment will become due on June 15, 2027. The loan is subject to average annual interest rate of 7.52%, the interest will be paid on semiannual basis and started December 15, 2016.

On May 30, 2017, the Bank signed additional subordinated loan agreement with IFC according to which the subordinated loan was increased by U.S. $ 25 million to become U.S. $ 75 million under the same terms and conditions of the subordinated loan agreement stated above.

During 2022, the Bank paid an amount of U.S. $ 12.5 million of the value of this subordinated loan, bringing the outstanding balance to U.S. $ 60 million as on December 31, 2022, compared to U.S. $ 72.5 million as on December 31, 2021.

22. Loans and borrowings

Details of this item are as follows:

	2022	2021
	U.S. $	U.S. $
Arab Fund for Economic and Social Development *	30,000,000	15,000,000
French Agency for Development **	31,307,124	13,442,500
European Bank for Reconstruction and Development (EBRD)***	7,777,778	10,000,000
European Investment Bank ****	8,571,429	10,000,000
	77,656,331	48,442,500

* During 2020, the Bank signed an agreement with the Arab Fund for Economic and Social Development by the amount of U.S. $ 30 million to finance credit facilities of small and medium entities. The loan to be settled through 15 semiannual installments with a grace period of 36 months. The first installment will be due on June 30, 2023 and the last installment will become due on June 30, 2030. The loan is subject to average annual interest rate of 3%. During the year, an amount of U.S. $ 15 million was transferred. The utilized amount as at December 31, 2022 and 2021 amounted to U.S. $ 30 million and 15 million, respectively.

** During 2018, the Bank signed a green project financing agreement with the French Agency for development (the Agency) and accordingly, the Bank initiated the “Sunref Palestine” project. The project aims to introduce the Agency’s green project initiative which is supported by the European Union. The agreement grants the Bank facilities at a maximum amount of Euro 12,500,000. The loan is to be settled through 20 semiannual installments with a grace period of 36 months. The first installment was due on November 30, 2021 and the last installment will become due on May 31, 2031. The loan is subject to average annual interest rate of 2.62%.

During 2021, the Bank signed new financing agreement with the Agency of a maximum amount of U.S. $ 30 million. The loan is to be settled through 13 semiannual installments with a grace period of 24 months. The loan is subject to average annual interest rate of 5.74%. The utilized amount as at December 31, 2022 and 2021 amounted to U.S. $ 31,307,124 and 13,442,500, respectively.

*** During 2021, the Bank signed an agreement with the European Bank for Reconstruction and Development by the amount of U.S. $ 15,000,000 to finance credit facilities of small and medium enterprises. During 2021, an amount of U.S. $ 10,000,000 was transferred. The loan is to be settled through 9 semiannual installments with a grace period of 18 months. The first installment will be due on June 15, 2022 and the last installment will become due on June 15, 2026. The loan is subject to average annual interest rate of Libor plus 3%. The parties agreed on an interest rate of 6.02% for the second half of 2022. The utilized amount as at December 31, 2022 and 2021 amounted to U.S. $ 7,777,778 and 10,000,000, respectively.

**** During 2021, the Bank signed an agreement with the European Investment Bank for an amount of U.S. $ 50 million with the aim of financing credit facilities to support small and medium enterprises. An amount of U.S. $ 10 million was transferred during 2021, and the rest of the amount will be transferred in the coming years. This loan is repayable in 14 semi-annual installments. The first installment will be due on May 15, 2022, and the last settlement will become due on November 15, 2028. The loan is subject to average annual interest rate of 3.49%. The utilized amount as at December 31, 2022 and 2021 amounted to U.S. $ 8,571,429 and 10,000,000, respectively.

23. Istidama loans from Palestine Monetary Authority

This item represents PMA's deposits as per PMA instructions number (22/2020) to mitigate the economic impacts of Coronavirus (COVID-19) outbreak on the economic activities and projects especially the small and medium projects. 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% from borrowers. Istidama loans amounted to U.S. $ 32,110,614 and U.S. $ 22,307,552 as at December 31, 2022 and December 31, 2021, respectively.

24. Lease liabilities

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	31,900,160	33,453,914
Additions	2,488,562	2,917,015
Finance costs	781,680	958,455
Disposals	(370,744)	(634,533)
Payments	(4,694,147)	(4,794,691)
Balance, end of the year	30,105,511	31,900,160

The liabilities related to rent contracts are deducted using a discount rate of 3.01%. The expected life of the lease liabilities has been calculated over a period of 10 years.

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the consolidated income statement for the year ended December 31, 2022 and December 31, 2021 amounted to U.S. $ 750,350 and U.S. $ 766,480, respectively (note 38).

25. Sundry provisions

	Balance, beginning of the year	Provided during the year	Paid during the year	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2022				
End of service provision	48,763,888	10,641,157	(9,268,983)	50,136,062
Lawsuits provision	2,219,435	-	-	2,219,435
	50,983,323	10,641,157	(9,268,983)	52,355,497
December 31, 2021				
End of service provision	46,931,940	9,833,706	(8,001,758)	48,763,888
Lawsuits provision	1,919,435	300,000	-	2,219,435
	48,851,375	10,133,706	(8,001,758)	50,983,323

End of service provision is calculated in accordance with the applicable labor law in Palestine and the Bank's personnel affairs system. The Bank also conducts an actuarial study to verify that there are no fundamental differences in calculating provisions in accordance with the IAS (19).

26. Taxes provisions

Movement on taxes provisions during the year ended December 31, 2022 and 2021 are as follows:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	21,492,314	4,610,652
Additions	40,691,196	28,350,526
Payments during the year	(27,278,003)	(11,468,864)
Currency variance and transfers	534,501	-
Balance, end of the year	35,440,008	21,492,314

Details of taxes provision are as follows:

	2022	2021
	U.S. $	U.S. $
Provision for the year	43,797,331	28,920,430
Recovery during the year	(2,314,115)	-
Motivational tax discounts and other settlements	(792,020)	(569,904)
Tax expenses presented in the consolidated income statement for the year	40,691,196	28,350,526

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

	2022	2021
	U.S. $	U.S. $
Accounting profit	107,337,833	84,604,853
Profit not subject to value added tax	(11,681,112)	(5,714,944)
Non-deductible tax expenses	64,599,186	14,015,342
Gross profit subject to value added tax	160,255,907	92,905,251
Deduct: value added tax	(22,104,263)	(12,814,517)
Value added tax on salaries	(8,135,580)	(7,800,711)
Adjustment for income tax calculation purpose	1,332,296	(3,286,669)
Taxable income	131,348,360	69,003,354
Income Tax expenses for the year	19,702,254	10,350,503
Taxes payable for the year	41,806,517	23,165,020
Taxes provisions for the year	43,797,331	28,920,430
Effective tax rate	%41	%34

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

During the year, the Bank reached a final settlement with the tax departments on the results of its operations until 2020, which resulted in U.S. $ 2,314,115 excess recognized in the consolidated income statement. The Bank did not reach a final settlement with the tax departments on the results of its operations for 2021. The Bank submitted its tax declaration on the results of its operations on time, the actual tax amount to be paid depends on the final settlements with the Tax Departments.

The Arab Islamic Bank (a subsidiary) reached a final settlement with the tax departments on the results of its operations until 2021. PalPay (a subsidiary) did not reach a final settlement with the tax departments on the results of its operations for the years 2021 and 2020. Al-Wasata Securities Company (a subsidiary) did not reach a final settlement with the tax departments on the results of its operations since incorporation in 2005 up to 2021.

As at December 31, 2022, the legal income tax rate is 15% and value added tax rate is 16%. 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 of profit.

27. Other liabilities

Details of this item are as follows:

	2022	2021
	U.S. $	U.S. $
Certified Bank checks	18,746,323	22,086,247
Outward Transfers	16,455,349	10,679,050
Accounts payable of subsidiaries' customers	15,801,003	13,679,208
Temporary deposits	6,997,658	4,580,207
Accrued and unpaid interests	6,520,993	6,696,086
Cash dividends payable	5,404,114	5,505,477
Accrued expenses	5,308,715	1,987,990
Provision for employee rewards	3,550,000	5,700,000
Interests and commissions paid in advance	3,472,296	4,655,044
Cash margins for donors	2,754,891	3,038,627
Accrued taxes	2,549,200	2,775,327
Return on unrestricted investment accounts	2,162,771	2,767,005
Board of Directors bonuses	1,262,000	1,240,000
Provision for expected credit losses on indirect credit facilities (note 50)	552,520	315,086
Negative financial derivatives	-	6,256,487
Others	3,336,639	4,894,110
	94,874,472	96,855,951

28. Additional paid-in capital

Additional paid in capital resulted from the following:

- The acquisition of the Bank's portfolio of the Commercial Bank of Palestine (CBP), which resulted in issuing 10,008,685 shares of Bank's shares to the shareholders of CBP. The share price of Bank of Palestine of U.S. $ 1 par value was U.S. $ 2.58. This resulted in additional paid-in capital of U.S. $ 15,813,723. The acquisition was based on the Bank's extra –ordinary meeting held on March 25, 2016.
- The admission of the International Finance Corporation (IFC) as a strategic partner with 5% of the share capital which amounted to 4,070,239 shares of U.S. $ 1 par value, each and an additional paid-in capital of U.S. $ 2.06 for each share with total additional paid-in capital amounting to U.S. $ 8,384,692. The admission was based on the Bank's Board of Director's decision in the meeting held on June 15, 2008.
- Offering 13 million shares exclusively for Banks' shareholders at U.S. $ 1 par value for each share plus U.S. $ 0.5 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.

29. Reserves

<u>Statutory reserve</u>

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

Voluntarily reserve

Voluntarily reserve represents cumulative deductions of the Bank's subsidiaries.

General Banking risks reserve

The item represents the amount of general Banking risk reserve deducted in accordance with PMA's regulations number (6/2015) based on 1.5% of direct credit facilities and financing after deducting impairment allowance for credit facilities and financing and suspended gain and interest and 0.5% of indirect credit facilities and financing. In accordance with PMA's circulation number (53/2013), no general Banking risk reserve is created against the direct credit facilities and financing granted to small and medium enterprises if the conditions mentioned in the circular are met. During 2018, the Bank applied IFRS (9) and utilized this reserve for the ECL of stage (1) and 2 in accordance with PMA instructions No. (2/2018). The reserve will not to be utilized or reduced without PMA's prior approval. During the year and based on the decision of the general assembly of the bank and the approval of the Palestinian Monetary Authority, the bank transferred an amount of U.S $ 1,937,201 from the general banking risk reserve to retained earnings.

Pro-cyclicality reserve

This reserve represents 15% of net profit after tax in accordance with PMA's instruction number (6/2015), as the Bank stopped deducting this percentage and adding it to the reserve item according to the instructions No. (01/2018) that specified a rate of 0.57% of the risk-weighted assets as a capital buffer against cyclical fluctuations, and the instructions allowed Banks to use the amounts formed in the item of the cyclical fluctuation reserve for the purposes of this buffer. In accordance with Instructions No. (13/2019), 0.66% of the risk-weighted assets were calculated as the anti-cyclical capital buffer for the year 2019. During the year 2022, the Palestinian Monetary Authority issued Instructions No. (2022/8) regarding the anti-cyclical capital buffe, so that the ratio is between (0.5%) of the risk-weighted assets. The instructions require the bank to commit to forming a capital buffer for cyclical fluctuations within a maximum period of March 31, 2023, and to disclose in the interim and final financial statements as of June 2023. The Bank is prohibited from disposing of the amounts allocated in the cyclical fluctuations reserve item, except for capitalization, after obtaining the prior written approval of Palestinian Monetary Authority.

30. Cash and Stock Dividends

The Bank's general assembly, during its ordinary meeting held on April 19, 2022, approved dividends distribution of U.S. $ 26,094,067, as stock dividends of U.S. $ 6,525,050 and as cash dividends of U.S. $ 19,569,017 based on pro-rata ownership of the Bank's shareholders in the Bank's share capital. During the year, the Bank obtained PMA's approval to capitalize amount of U.S. $ 1,937,201 from general banking risks reserve and utilize this amount as part of stock distributions.

The Bank's general assembly, during its ordinary 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 .

Cash and stock dividends from a subsidiary

The general assembly of Arab Islamic Bank (a subsidiary) decided in its ordinary meeting held on April 17, 2022, approved a stock dividend distribution to shareholders at 4.9% of the nominal value of the share, with a total amount of U.S. $ 4,500,000, and cash dividends of 4.36% of the nominal value of the share, with a total amount of U.S. $ 4,000,000 from the Bank's operating results for the year 2021. The share of non-controlling parties in the distributed profits amounted to a total of U.S. $ 1,917,512.

The general assembly of Arab Islamic Bank (a subsidiary) decided in its ordinary meeting held on March 30, 2021, approved a stock dividend distribution to shareholders at 3.67% of the nominal value of the share, with a total amount of U.S. $ 3,250,000, and cash dividends of 2.9% of the nominal value of the share, with a total amount of U.S. $ 2,565,000 from the Bank's operating results for the year 2020. The share of non-controlling parties in the distributed profits amounted to a total of U.S. $ 1,229,604.

31. Interest income

This item comprises interest revenues earned on the following accounts:

	2022	2021
	U.S. $	U.S. $
Loans	129,518,204	117,922,341
Overdraft accounts	27,727,039	27,858,793
Overdrawn accounts	11,935,247	12,219,407
Financial assets at amortized cost	9,423,230	8,874,043
Balances, deposits and investments at Banks and financial institutions	8,580,211	4,272,445
Credit cards	3,127,241	3,546,854
	190,311,172	174,693,883

32. Interest expense

This item comprises interest incurred on the following accounts:

	2022	2021
	U.S. $	U.S. $
Interest on customers' deposits		
Time deposits	16,573,139	25,198,716
Saving accounts	2,488,939	2,944,509
Current and on demand accounts	153,137	154,305
	19,215,215	28,297,530
Interest on subordinated loan	5,438,531	5,831,888
Interest on Palestine Monetary Authority's deposits	2,088,458	1,491,136
Interest on loans and borrowings	1,962,434	1,049,100
Interest on Banks' and financial institutions' deposits	812,254	1,276,759
Interest on lease liabilities	781,680	959,837
	30,298,572	38,906,250

33. Net financing and investment income

This item comprises net investment and financing income from Arab Islamic Bank (subsidiary), below are details of this item:

	2022	2021
	U.S. $	U.S. $
Revenues from financing returns	60,940,570	60,693,209
Investment returns	3,069,722	2,192,718
	64,010,292	62,885,927
Less: return of unrestricted investment accounts	(7,854,958)	(12,719,228)
	56,155,334	50,166,699

34. Net commissions

This item comprises commissions against the following:

	2022	2021
	U.S. $	U.S. $
Commissions income:		
Accounts management commission	8,437,416	7,460,217
Bank transfers	7,931,296	7,344,144
Checks	6,942,458	4,977,780
Direct credit facilities	4,867,991	3,013,436
Indirect credit facilities	4,098,053	3,217,377
Salaries commission	3,699,167	3,524,533
Credit cards commission revenue, net	2,616,027	5,439,515
Other Banking services	6,332,141	6,414,128
	44,924,549	41,391,130
Less: commissions expense	(4,809,651)	(3,747,398)
	40,114,898	37,643,732

35. Net gains from financial assets

This item comprises the following:

	2022	2021
	U.S. $	U.S. $
Dividends from financial assets through other comprehensive income	2,474,650	1,977,333
Dividends from financial assets through profit or loss	488,773	481,418
Realized gains from sale of financial assets at fair value through profit or loss	14,088	1,255,231
Unrealized (losses)/gains from revaluation of financial assets at fair value through profit or loss	(1,048,479)	4,199,145
Dividends from financial assets at fair value through profit or loss sold during the year	-	711,980
Gains from sale of financial assets at amortized cost	-	19,858
Investment management fees	(544,438)	(693,134)
	1,384,594	7,951,831

36. Other revenues, net

	2022	2021
	U.S. $	U.S. $
Safe boxes rental	263,804	247,207
Recovery of suspended interest and profit	3,754,246	3,857,115
Sundry	6,828,900	4,325,099
	10,846,950	8,429,421

37. Personnel expenses

	2022	2021
	U.S. $	U.S. $
Salaries and related benefits	52,461,624	50,225,633
Provision for employees' end of service	10,641,157	9,833,706
Value added tax on salaries	8,135,580	7,800,711
Bonuses and rewards	4,896,513	6,134,250
Medical and insurance expenses	3,861,680	3,745,537
Bank's contribution to saving fund *	2,194,958	2,128,265
Transportation	1,408,513	545,530
Training expenses	1,033,499	839,351
Clothing allowances	996,964	919,211
	85,630,488	82,172,194

* The Bank deducted %5 of each employee's monthly basic salary and matched it with an additional %5 as the Bank's contribution for employees in service for less than 5 years, 8% for employees in service for the period from 5 years to less than 10 years, and 10% for employees in service for the period of more than 10 years.

38. Other operating expenses

	2022	2021
	U.S. $	U.S. $
Palestine Deposit Insurance Corporation fees*	9,642,700	4,721,739
Telephone, postage and fax	6,174,821	5,702,374
Maintenance and repairs	5,728,175	6,308,071
Cash shipping expense	5,120,434	4,592,840
Professional fees	5,031,063	4,297,917
Advertising and promotions	4,235,906	3,342,266
Subscriptions fees	2,384,781	2,355,459
Board of Directors bonuses and allowances	2,335,604	2,077,907
Utilities	2,324,674	2,298,849
Social responsibility **	2,091,615	2,050,429
Stationery and printing	2,037,148	1,674,300
Insurance fees	1,722,297	1,441,958
Fuel	1,149,890	1,037,508
Guarding and cleaning fees	1,216,561	1,143,458
License fees	879,413	1,328,054
Travel and seminars fees	847,104	278,847
Rent (note 24)	750,350	766,480
Hospitality and ceremonies fees	485,956	431,210
Vehicles' expense	274,795	265,869
Sundry	3,842,132	4,741,974
	58,275,419	50,857,509

* 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 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 at January 1, 2022.

** The Bank is committed to support social responsibility projects and activities in Palestine through contributions towards the development of various sectors including education, youth, innovation, sport, health and environment, culture and arts, development and economic, diaspora affairs, humanitarian effort and women empowerment, in addition, the Bank encourages its employees to participate in voluntary work by engaging them in developmental projects in cooperation with partner organizations and humanitarian initiatives. Social responsibility represents 3.14% and 3.64% of profit for the years 2022 and 2021, respectively.

39. Provision for expected credit losses on investments, and indirect credit facilities and Islamic financing, net

This account represents the IFRS (9) effect on the financial assets except for direct credit facilities in which it is shown in note (8), as follows:

	2022				
	Stage (1)	Stage (2)	Stage (3)	Total	2021
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with Palestine Monetary Authority (note 5)	1,060,855	-	-	1,060,855	809,904
Balances, deposits and investments at Banks and financial institutions (note 6)	105,339	-	265,984	371,323	144,584
Financial assets at amortized cost (note 10)	832,267	(43,026)	1,358,030	2,147,271	878,589
Indirect credit facilities (note 50)	34,726	202,708	-	237,434	12,933
Total	2,033,187	159,682	1,624,014	3,816,883	1,846,010

40. Palestine Monetary Authority fines

This item represents fines imposed by PMA on the Bank and its subsidiary amounted to U.S. $ 25,000 and U.S. $ 20,000 for the year ended December 31, 2022 and 2021, respectively, related to non-compliance with some PMA instructions and the related laws and regulations.

41. Cash and cash equivalents

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

	2022	2021
	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	1,805,386,214	1,780,389,793
Add:		
Balances, deposits and investments at Banks and financial institutions	595,923,080	785,484,594
	2,401,309,294	2,565,874,387
Less:		
Deposits at Banks and financial institutions maturing after 3 months	(32,040,903)	(13,000,000)
Investments at Islamic Banks maturing after 3 months	(6,000,000)	(3,000,000)
Restricted balances of withdrawal	(75,823,828)	(83,831,814)
Palestine Monetary Authority's deposits	(89,792,912)	(135,811,797)
Banks and financial institutions' deposits maturing within 3 months	(90,735,925)	(118,061,868)
Statutory cash reserve	(490,496,023)	(474,918,296)
	1,616,419,703	1,737,250,612

42. Basic and diluted earnings per share

	2022	2021
	U.S. $	U.S. $
Profit for the year attributable to equity holders of the Bank	60,912,868	49,132,664
	Shares	Shares
Weighted average of subscribed shares during the year	223,958,577	220,073,148
	U.S. $	U.S. $
Basic and diluted earnings per share attributable to equity holders of the Bank	0.27	0.22

43. Related party transactions

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

2022	Associates	Joint Venture	Board of Directors and executive management	Others*	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:					
Direct credit facilities and Islamic financing	5,089,800	6,697,410	57,537,585	33,957,902	103,282,697
Including:					
Non-performing credit facilities	-	-	-	1,201,838	1,201,838
Deposits	679,819	435,221	31,973,951	23,920,413	57,009,404
Financial assets at amortized cost	-	-	8,000,000	-	8,000,000
Financial assets at fair value through other comprehensive income	-	-	5,066,665	-	5,066,665
Board of Directors renumerations and expenses	-	-	1,262,000	-	1,262,000
Commitments and contingencies					
Letters of guarantees	211,566	-	17,094,854	893,565	18,199,985
Letters of credit	-	-	-	532,100	532,100
Unutilized limits	1,765,096	-	273,566	5,148,058	7,186,720
Consolidated Income statement items:					
Interest and commissions earned	259,621	338,823	2,824,285	1,492,429	4,915,158
Interest and commissions paid	-	-	317,790	69,203	386,993

2021	Associates and a joint venture	Board of Directors and executive management	Others*	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Consolidated statement of financial position items:				
Direct credit facilities and Islamic financing	3,975,723	50,461,025	30,547,514	84,984,262
Including:				
Non-performing credit facilities	-	-	583,814	583,814
Deposits	1,650,705	38,080,993	29,734,843	69,466,541
Financial assets at amortized cost	-	8,000,000	-	8,000,000
Board of Directors renumerations and expenses	-	1,240,000	-	1,240,000
Commitments and contingencies				
Letters of guarantees	211,566	9,505,161	976,060	10,692,787
Letters of credit	-	-	566,000	566,000
Unutilized limits	-	291,984	8,688,879	8,980,863
Consolidated Income statement items:				
Interest and commissions earned	178,976	2,524,995	1,002,702	3,706,673
Interest and commissions paid	-	651,727	211,775	863,502

* Others include branches' managers, non-executive employees and their relatives, and shareholders with less than 5% of ownership in the Bank's capital as disclosed to PMA.

- Net direct credit facilities and Islamic financing granted to related parties as at December 31, 2022 and 2021 represent 2.88% and 2.46% respectively, from the net direct credit facilities and Islamic financing.
- Net direct credit facilities and Islamic financing granted to related parties as at December 31, 2022 and 2021 represent 17.24% and 15.55% respectively, from the Bank's regulatory capital.
- Interest on U.S. $ direct credit facilities ranges between 0.6% to 24%.
- Interest on New Israeli Shekels direct credit facilities ranges between 3.75% to 21%.
- Interest on the Jordanian Dinar direct credit facilities ranges between 7.5% to 11%.
- Interest on U.S. $ deposits ranges between 0.10% to 5.25%.

Following is summary of the compensation (salaries, bonuses and other compensation) of key management personnel:

	2022	2021
	U.S. $	U.S. $
Executive management's salaries and related benefits (short term benefits)	4,400,658	2,867,378
Executive management's end of service provision (long term benefits)	365,080	440,746
Board of Directors' bonuses and expenses *	1,812,083	1,240,000
Chairman allowances	480,000	480,000

* This item includes the board of directors' remuneration of Bank of Palestine in the amount of U.S. $ 990,000 for the year 2022 and 2021, respectively.

Following are the details of Board of Director remuneration for the years 2022 and 2021.

	2022	2021
	U.S. $	U.S. $
Hashim Hani Shawa	100,112	108,659
Abdullah Al-Ghanim	100,112	96,585
Tafeeda Jarbawi	100,112	108,659
Emad Erik Shehadeh	100,112	108,659
Lana Abu Hijleh	100,112	108,659
Maha Awad	100,112	108,659
Tawfeeq Habash	77,865	-
Adel Dajani	77,865	-
Tariq Aqqad	66,742	84,512
Lama Kan'an	66,742	-
LindaTarzi	55,620	-
Maher Jawad Farah	22,247	108,659
Hani Hasan Nigim	22,247	108,659
Nada Abu Shousha	-	48,290
	990,000	990,000

Article no. (56) of the Bank's bylaw, states that 5% of the Banks' annual net income shall be distributed to the members of the Board of Directors. Actual bonuses distributed were 1.89% and 2.20% of profit for the years 2022 and 2021, respectively.

44. Fair value of financial instruments

The table below represents a comparison between the carrying amounts and fair values of financial instruments as at December 31, 2022:

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets					
Cash and balances with Palestine Monetary Authority	1,803,515,455	1,803,515,455	-	-	1,803,515,455
Balances, deposits and investments at Banks and financial institutions	592,297,476	592,297,476	-	-	592,297,476
Financial assets at fair value through profit or loss:					
Quoted stocks	1,281,929	1,502,782	-	-	1,502,782
Unquoted stocks	7,665,503	-	2,842,242	4,823,261	7,665,503
Direct credit facilities and Islamic financing					
Individuals	1,222,939,598	-	-	1,222,939,598	1,222,939,598
Corporate, local regulators, institutions and small projects	1,636,908,757	-	-	1,636,908,757	1,636,908,757
Palestine National Authority	712,206,510	-	-	712,206,510	712,206,510
Financial assets at fair value through other comprehensive income:					
Quoted stocks	46,962,517	46,962,517	-	-	46,962,517
Unquoted stocks	12,563,716	-	-	12,563,716	12,563,716
Financial assets at amortized cost:					
Treasury bills	151,744,780	151,744,780	-	-	151,744,780
Quoted bonds	39,092,591	38,831,331	-	-	38,831,331
Unquoted bonds	12,317,876	-	-	12,317,876	12,317,876
Islamic sukuk	38,151,225	38,136,875	-	-	38,136,875
Other financial assets	36,482,442	-	7,531,513	28,950,929	36,482,442
Total assets	6,314,130,375	2,672,991,216	10,373,755	3,630,710,647	6,314,075,618
Financial liabilities					
Palestine Monetary Authority deposits	199,103,950	199,103,950	-	-	199,103,950
Banks and financial institutions' deposits	93,668,011	93,668,011	-	-	93,668,011
Customers' deposits	4,966,613,355	4,966,613,355	-	-	4,966,613,355
Cash margins	300,110,487	300,110,487	-	-	300,110,487
Subordinated loan	60,000,000	-	-	60,000,000	60,000,000
Loans and borrowings	77,656,331	-	-	77,656,331	77,656,331
Istidama loans from Palestine Monetary Authority	32,110,614	-	-	32,110,614	32,110,614
Leased Liabilities	30,105,511	-	-	30,105,511	30,105,511
Other financial liabilities	94,321,952	-	-	94,321,952	94,321,952
Total liabilities	5,853,690,211	5,559,495,803	-	294,194,408	5,853,690,211

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

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets					
Cash and balances with Palestine Monetary Authority	1,779,579,889	1,779,579,889	-	-	1,779,579,889
Balances, deposits and investments at Banks and financial institutions	782,230,313	782,230,313	-	-	782,230,313
Financial assets at fair value through profit or loss					
Quoted stocks	5,253,849	5,253,849	-	-	5,253,849
Unquoted stocks	5,000,000	-	-	5,000,000	5,000,000
Direct credit facilities and Islamic financing					
Individuals	1,014,724,224	-	-	1,014,724,224	1,014,724,224
Corporate, local regulators, institutions and small projects	1,595,962,427	-	-	1,595,962,427	1,595,962,427
Palestine National Authority	842,520,509	-	-	842,520,509	842,520,509
Financial assets at fair value through other comprehensive income					
Quoted stocks	37,041,837	37,041,837	-	-	37,041,837
Unquoted stocks	5,213,425	-	-	5,213,425	5,213,425
Financial assets at amortized cost:					
Treasury bills	141,921,436	76,160,924	-	66,557,446	142,718,370
Quoted bonds	40,865,932	41,865,136	-	-	41,865,136
Unquoted bonds	12,348,257	-	-	12,500,000	12,500,000
Islamic sukuk	33,709,792	31,433,986	-	-	31,433,986
Other financial assets	34,782,211	-	-	34,782,211	34,782,211
Total assets	6,331,154,101	2,753,565,934	-	3,577,260,242	6,330,826,176
Financial liabilities					
Palestine Monetary Authority deposits	242,439,107	-	-	242,439,107	242,439,107
Banks and financial institutions' deposits	120,061,868	-	-	120,061,868	120,061,868
Customers' deposits	5,013,551,326	-	-	5,013,551,326	5,013,551,326
Cash margins	291,588,276	-	-	291,588,276	291,588,276
Subordinated loan	72,500,000	-	-	72,500,000	72,500,000
Loans and borrowings	48,442,500	-	-	48,442,500	48,442,500
Istidama loans from Palestine Monetary Authority	22,307,552	-	-	22,307,552	22,307,552
Leased Liabilities	31,900,160	-	-	31,900,160	31,900,160
Other financial liabilities	96,540,865	-	6,256,487	90,284,378	96,540,865
Total liabilities	5,939,331,654	-	6,256,487	5,933,075,167	5,939,331,654

The fair value of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of cash and balances with Palestine Monetary Authority, balances at Banks and financial institutions, other financial assets, Palestine Monetary Authority deposits, Banks and financial institutions balances, customers' deposits, cash margins, and other financial liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments or its interest rates are re-priced during the year.

Fair value for financial assets subject to interest was estimated by using expected cash flow by using the interest rates of comparative assets with the same terms and risks.

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

Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are not actively traded in active financial markets is determined based on appropriate evaluation methods.

Fair value of credit facilities and Islamic financing was determined through the study of different variables such as interest rates, risk factors and the debtor's solvency. The fair value of credit facilities does not differ from their carrying amounts as at December 31, 2022.

45. Fair value measurement

The Bank uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

- Level 1: Using the trading prices (unadjusted) for completely similar financial instruments in active financial markets for the financial instruments.
- Level 2: using data other than trading prices, but it can be observed directly or indirectly.
- Level 3: using data that is not based on observable market data.

The following table provides the fair value measurement hierarchy of the Bank's assets as at December 31, 2022:

			Measurement of fair value by		
	Date of evaluation	Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value					
Financial assets at fair value through profit or loss- Quoted (note 7):					
Quoted	December 31, 2022	1,502,782	1,502,782	-	-
Unquoted	December 31, 2022	7,665,503	-	2,842,242	4,823,261
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2022	46,962,517	46,962,517	-	-
Unquoted	December 31, 2022	12,563,716	-	-	12,563,716
Investment properties (note 12)	December 31, 2022	22,930,742	-	-	22,930,742
Financial assets accounted for in its fair value:					
Financial assets at amortized cost- Quoted (note 10):					
Treasury bills	December 31, 2022	151,744,780	151,744,780	-	-
Quoted bonds	December 31, 2022	38,831,331	38,831,331	-	-
Unquoted bonds	December 31, 2022	12,317,876	-	-	12,317,876
Islamic Sukuk	December 31, 2022	38,136,875	38,136,875	-	-
Liabilities measured at fair value on a recurring basis					
Financial derivatives at fair value through profit or loss (note 16)	December 31, 2022	7,531,513	-	7,531,513	-

The following table provides the fair value measurement hierarchy of the Bank's assets as at December 31, 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. $
Assets measured at fair value					
Financial assets at fair value through profit or loss- Quoted (note 7):					
Quoted	December 31, 2021	1,333,421	1,333,421	-	-
Unquoted	December 31, 2021	8,920,428	-	3,276,737	5,643,691
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2021	37,041,837	37,041,837	-	-
Unquoted	December 31, 2021	5,213,425	-	-	5,213,425
Investment properties (note 12)	December 31, 2021	25,962,178	-	-	25,962,178
Financial assets accounted for in its fair value:					
Financial assets at amortized cost- Quoted (note 10):					
Treasury bills	December 31, 2021	142,718,370	76,160,924	-	66,557,446
Quoted bonds	December 31, 2021	41,865,136	41,865,136	-	-
Unquoted bonds	December 31, 2021	12,500,000	-	-	12,500,000
Islamic Sukuk	December 31, 2021	31,433,986	31,433,986	-	-
Liabilities measured at fair value on a recurring basis					
Financial derivatives at fair value through profit or loss (note 27)	December 31, 2021	6,256,487	-	6,256,487	-

The Bank has not made any transfers between the above levels during 2022 and 2021.
The following table represents the fair value sensitivity of investment properties:

	Increase/ decrease in fair value	Effect on fair value
	%	U.S. $
2022		
Fair value per square meter	5+	1,146,537
Fair value per square meter	5-	(1,146,537)
2021		
Fair value per square meter	5+	1,298,109
Fair value per square meter	5-	(1,298,109)

The movement on investments whose fair value was measured using Level 3 was as follows:

December 31 2022	Balance, beginning of the year	Additions	Maturity/sale	Fair value reserve	Unrealized losses from revaluation of financial assets recognized in consolidated income statement	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value through profit or loss- Quoted (note 7):						
Unquoted	5,643,691	375,000	-	-	(1,195,430)	4,823,261
Financial assets at fair value through other comprehensive income items (note 9):						
Unquoted	5,213,425	6,149,278	(50,000)	1,251,013	-	12,563,716
Assets measured at Fair Value:						
Investment properties (note 12)	25,962,178	528,278	(3,792,861)	-	233,147	22,930,742
	36,819,294	7,052,556	(3,842,861)	1,251,013	(962,283)	40,317,719

December 31 2021	Balance, beginning of the year	Purchases	Maturity/sale	Fair value reserve	Unrealized losses from revaluation of financial assets recognized in consolidated income statement	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets at fair value through profit or loss- Quoted (note 7):						
Unquoted	5,602,101	70,000	-	-	(28,410)	5,643,691
Financial assets at fair value through other comprehensive income items (note 9):						
Unquoted	4,998,467	89,176	-	125,782	-	5,213,425
Assets measured at Fair Value:						
Investment properties (note 12)	25,884,919	362,999	-	-	(285,740)	25,962,178
	36,485,487	522,175	-	125,782	(314,150)	36,819,294

– Sensitivity of unobservable data (level three):

Certified external valuators are assigned to value the material assets such as investment properties and investment in financial assets not listed in the financial market. After discussion with these external evaluators, the Bank selects the methods and inputs that will be used for the evaluation in each case, which are mostly sales prices of similar land during the year which are calculated at the fair value of the square meter of the land multiplied by the number of square meters.

46. Concentration of Assets and Liabilities

Following is a breakdown of the Bank's assets, liabilities and items out of consolidated statement of financial position by geographical and sectoral areas:

	2022			2021		
	Assets	Liabilities and equity	Items out of consolidated financial position	Assets	Liabilities and equity	Items out of consolidated financial position
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
By geographical area						
Palestine	5,637,538,295	6,185,301,530	534,070,471	5,587,593,535	6,039,564,771	518,404,126
Israel	54,636,368	1,875,430	22,673	66,010,809	29,674,222	105,015
Jordan	320,987,799	10,402,405	59,272	358,571,719	36,773,557	2,325,015
Europe	245,868,312	77,737,176	14,724,649	354,937,523	128,056,121	12,851,852
USA	45,984,611	60,000,000	4,003,718	16,910,577	72,500,000	881,641
Others	182,945,472	152,644,316	21,779,009	124,197,643	201,653,135	14,287,778
Total	6,487,960,857	6,487,960,857	574,659,792	6,508,221,806	6,508,221,806	548,855,427
By sector						
Retail	1,207,029,427	2,919,024,393	47,548,527	1,091,230,036	3,509,982,647	40,917,886
Corporate, institutions and public sector	2,302,134,391	2,375,279,448	507,169,673	2,361,977,124	1,795,156,955	507,937,541
Treasury	2,787,468,190	537,184,622	19,941,592	2,852,835,782	505,751,027	-
Others	191,328,849	656,472,394	-	202,178,864	697,331,177	-
Total	6,487,960,857	6,487,960,857	574,659,792	6,508,221,806	6,508,221,806	548,855,427

47. Risk Management

The Bank discloses information to help the users of the consolidated financial statements to assess the nature and level of risk the Bank is exposed to as a result of its financial instruments as at the date of the consolidated financial statements as follows:

Risk management framework

Risks related to the Bank's activities is managed, measured and monitored continuously to remain within the permissible limits, and given the importance of the risk management process on the Bank's profits, tasks and monitoring responsibilities associated to these risks are distributed among employees.

Risk management process

The Board of Directors and the risk management committee are responsible for identifying and controlling risks; in addition, there are several parties which are responsible for managing and monitoring risks in the area in which the Bank operates.

Risk management committee

Risk management committee are responsible for developing risks strategies and applying the principles, general framework and allowed limits.

Risk measurement and reporting system

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk the Bank is willing to accept, Information is collected from different departments and analyzed for early identification of potential risks. This information is presented to the Bank's Board of Directors, the risk management committee and the executive departments responsible for risk management committee.

Risks

The Bank follows different policies in managing various risks as part of determined strategies. The Bank's risk departments monitor and control risks and optimize strategic diversification of financial assets and financial liabilities. These risks include credit risk and market risk (interest rate risk, currency risk and equity price risk) and liquidity risk. The Bank has established the Credit Quality Unit, which aims to identify early deterioration in the quality of customers' credit or the drop in the fair value of their collateral. The Bank is also currently preparing a credit rating system for its clients.

I. 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, through credit risk management, sets ceilings for direct credit facilities (retail or corporate) and total loans granted to each sector and each geographical area. The Bank also monitors credit risks and continuously evaluates the credit standing of customers. The Bank also obtains appropriate collaterals from customers.

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

	2022	2021
	U.S. $	U.S. $
Consolidated statement of financial position items		
Balances with Palestine Monetary Authority	521,181,395	575,902,313
Balances, deposits and investments at Banks and financial institutions	592,297,476	782,230,313
Direct credit facilities and Islamic financing:		
Retail	1,222,939,598	1,014,724,224
Corporate, institutions and local regulators	1,636,908,757	1,595,962,427
Palestine National Authority	712,206,510	842,520,509
Financial assets at amortized cost	241,306,472	228,845,417
Other financial assets	36,482,442	34,782,211
	4,963,322,650	5,074,967,414
Items not included in the consolidated statement of financial position		
Letters of guarantees	212,390,048	206,492,217
Letters of credit	38,797,292	46,069,513
Acceptances	7,784,207	9,417,798
Unutilized credit facilities limits	315,491,295	286,553,199
Other	196,950	322,700
	574,659,792	548,855,427

Guarantees and other credit enhancements

The amount and type of collateral required depends on the credit risk assessment of the counterparty. There are guidelines for how to accept and evaluate each type of guarantee. Management monitors the market value of the collateral and additional collateral is requested in accordance with the basic agreement. In the normal course of business, the Bank uses outside agents to recover funds from repossessed property or other assets in its retail portfolio, e.g. auctions. Any excess funds are returned to customers. As a result, residential properties are neither recorded in the consolidated statement of financial position nor treated as non-current assets held for sale.

Although master nettings may significantly reduce credit risk, it should be noted that credit risk is excluded only to the extent of amounts owed to the same counterparty. The tables below show the maximum exposure to credit risk by class of financial assets. The total fair value of the collateral is shown, which is the excess of collateral (the difference between the fair value of the collateral held greater than the value of the exposure to which it relates), and the net exposure to credit risk.

Expected credit losses coverage rate:

2022	Gross Exposure Stage (1) U.S. $	Gross Exposure Stage (2) U.S. $	Gross Exposure Stage (3) U.S. $	Expected credit losses Stage (1) U.S. $	Expected credit losses Stage (2) U.S. $	Expected credit losses Stage (3) U.S. $	ECL Coverage Ratios Stage (1) U.S. $	ECL Coverage Ratios Stage (2) U.S. $	ECL Coverage Ratios Stage (3) U.S. $
Balances with Palestine Monetary Authority	521,181,395	-	-	1,870,759	-	-	0.36%	-	-
Balances, deposits and investments at Banks and financial institutions	592,814,454	-	3,108,626	516,978	-	3,108,626	0.09%	-	100.00%
Direct credit facilities and Islamic financing:									
Retail	555,089,783	688,391,296	41,432,912	586,473	34,197,607	20,472,102	0.11%	4.97%	49.41%
SMEs	459,982,177	123,808,447	58,166,117	1,814,358	4,789,212	29,344,633	0.39%	3.87%	50.45%
Corporate and local regulators	531,874,342	500,524,466	92,227,647	3,181,055	26,321,254	53,026,269	0.60%	5.26%	57.49%
Palestine National Authority	726,734,415	-	-	14,527,905	-	-	2.00%	-	-
Financial assets at amortized cost	229,674,446	13,518,617	3,423,325	1,786,677	99,914	3,423,325	0.78%	0.74%	100.00%
Other financial assets	36,482,442	-	-	-	-	-	0.00%	-	-
Total	3,653,833,454	1,326,242,826	198,358,627	24,284,205	65,407,987	109,374,955	0.66%	4.93%	55.14%
Credit exposure related to off-balance sheet items	501,911,321	72,748,471	-	177,133	375,387	-	0.04%	0.52%	-

2021	Gross Exposure Stage (1) U.S. $	Gross Exposure Stage (2) U.S. $	Gross Exposure Stage (3) U.S. $	Expected credit losses Stage (1) U.S. $	Expected credit losses Stage (2) U.S. $	Expected credit losses Stage (3) U.S. $	ECL Coverage Ratios Stage (1) U.S. $	ECL Coverage Ratios Stage (2) U.S. $	ECL Coverage Ratios Stage (3) U.S. $
Balances with Palestine Monetary Authority	575,902,313	-	-	809,904	-	-	0.14%	-	-
Balances, deposits and investments at Banks and financial institutions	782,375,968	-	3,108,626	411,639	-	2,842,642	0.05%	-	91.44%
Direct credit facilities and Islamic financing:									
Retail	377,055,962	657,635,824	43,835,261	3,091,987	22,029,370	24,571,583	0.82%	3.35%	56.05%
SMEs	367,263,182	106,279,350	66,400,849	3,265,647	5,589,473	36,157,650	0.89%	5.26%	54.45%
Corporate and local regulators	625,083,355	486,651,896	74,664,520	2,566,262	15,604,353	43,121,099	0.41%	3.21%	57.75%
Palestine National Authority	840,205,893	-	-	13,773,547	-	-	1.64%	-	-
Financial assets at amortized cost	207,400,502	20,944,135	3,663,425	951,545	145,805	2,065,295	0.46%	0.70%	56.38%
Other financial assets	34,482,211	-	300,000	-	-	300,000	0.00%	-	100.00%
Total	3,809,769,386	1,271,511,205	191,972,681	24,870,531	43,369,001	109,058,269	0.65%	3.41%	56.81%
Credit exposure related to off-balance sheet items	458,520,533	89,970,915	-	142,407	172,679	-	0.03%	0.19%	-

Analysis of stage (2) loans reflecting the criteria for inclusion in stage 2:

Below is an analysis of the exposures for stage 2 at the reporting date that reflects the reasons for inclusion in stage (2) by class of loans to customers (total book value and corresponding expected credit losses). For the purposes of this analysis, when exposures meet more than one criterion for determining a significant increase in credit risk, the total carrying amount and the corresponding ECL are provisioned in order with these categories.

The indicators of significant increases in credit risk (SICR) are explained in note (3)

	Retail		SMEs		Corporate and local regulators		Palestine National Authority		Total stage (2)	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
2022	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Less than 30 DPD										
Qualitative factors	55,752,545	5,435,259	65,930,082	2,640,480	409,705,561	23,742,112	-	-	531,388,188	31,817,851
More than 30 DPD	632,638,751	28,762,348	57,878,365	2,148,732	90,818,905	2,579,142	-	-	781,336,021	33,490,222
Total	688,391,296	34,197,607	123,808,447	4,789,212	500,524,466	26,321,254	-	-	1,312,724,209	65,308,073

	Retail		SMEs		Corporate and local regulators		Palestine National Authority		Total stage (2)	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
2021	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Less than 30 DPD										
Qualitative factors	86,143,441	2,227,034	49,330,809	1,990,032	298,592,152	10,880,949	-	-	434,066,402	15,098,015
More than 30 DPD	571,492,383	19,802,336	56,948,541	3,599,441	188,059,744	4,723,404	-	-	816,500,668	28,125,181
Total	657,635,824	22,029,370	106,279,350	5,589,473	486,651,896	15,604,353	-	-	1,250,567,070	43,223,196

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

2022	Total value of exposure	Fair value of collaterals: Cash margins	Precious metals	Quoted stocks and letter of guarantees	Vehicles and other equipment	Real estate	Total value of collaterals	Exposure net of collaterals	Expected credit loss
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures related to items in the consolidated statement of financial position:									
Balances with Palestine Monetary Authority	521,181,395	-	-	-	-	-	-	521,181,395	1,870,759
Balances, deposits and investments at Banks and financial institutions	595,923,080	-	-	-	-	-	-	595,923,080	3,625,604
Direct credit facilities and Islamic financing:									
Retails	1,284,913,991	29,198,127	317,383	3,797,390	107,111,975	219,654,138	360,079,013	924,834,978	55,256,182
SMEs	641,956,741	72,414,410	323,908	15,793,958	52,756,290	192,418,150	333,706,716	308,250,025	35,948,203
Corporate and local regulators	1,124,626,455	122,077,399	-	67,430,551	46,278,292	394,699,471	630,485,713	494,140,742	82,528,578
Palestine National Authority	726,734,415	-	-	-	-	-	-	726,734,415	14,527,905
Financial assets at amortized cost	246,616,388	-	-	-	-	-	-	246,616,388	5,309,916
Other financial assets	36,482,442	-	-	-	-	-	-	36,482,442	-
Total	5,178,434,907	223,689,936	641,291	87,021,899	206,146,557	806,771,759	1,324,271,442	3,854,163,465	199,067,147
Credit exposure related to off-balance sheet items	574,659,792	43,309,717	-	1,090,627	282,259	14,060,045	58,742,648	515,917,144	552,520

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

2022	Total exposure	Fair value of collaterals: Cash margins	Precious metals	Real estate	Quoted stocks	Vehicles and other equipment	Total value of collaterals	Exposure net of collaterals	Expected credit loss
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures related to items in the consolidated statement of financial position:									
Direct credit facilities and Islamic financing:									
Retail	41,432,912	1,824,713	48,087	8,814,460	-	1,469,833	12,157,093	29,275,819	20,472,102
Corporate and institutions	150,393,764	11,802,183	61,371	37,830,572	1,591,544	2,891,827	54,177,497	96,216,267	82,370,902
Total	191,826,676	13,626,896	109,458	46,645,032	1,591,544	4,361,660	66,334,590	125,492,086	102,843,004

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

2021	Total value of exposure	Fair value of collaterals: Cash margins	Precious metals	Quoted stocks and letter of guarantees	Vehicles and other equipment	Real estate	Total value of collaterals	Exposure net of collaterals	Expected credit loss
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures related to items in the consolidated statement of financial position:									
Balances with Palestine Monetary Authority	575,902,313	-	-	-	-	-	-	575,902,313	809,904
Balances, deposits and investments at Banks and financial institutions	785,484,594	-	-	-	-	-	-	785,484,594	3,254,281
Direct credit facilities and Islamic financing:									
Retails	1,078,527,047	31,163,600	17,974,054	69,936,554	36,297,315	117,149,828	272,521,351	806,005,696	49,692,940
SMEs	539,943,381	81,641,358	3,216,834	254,526,793	47,781,110	77,600,519	464,766,614	75,176,767	45,012,770
Corporate and local regulators	1,186,399,771	69,721,258	79,239,329	119,123,533	81,787,170	212,459,563	562,330,853	624,068,918	61,291,714
Palestine National Authority	840,205,893	-	-	-	-	-	-	840,205,893	13,773,547
Financial assets at amortized cost	232,008,062	-	-	-	-	-	-	232,008,062	3,162,645
Other financial assets	34,782,211	-	-	-	-	-	-	34,782,211	300,000
Total	5,273,253,272	182,526,216	100,430,217	443,586,880	165,865,595	407,209,910	1,299,618,818	3,973,634,454	177,297,801
Credit exposure related to off-balance sheet items	548,491,448	51,533,860	-	13,446,754	294,782	1,662,141	66,937,537	481,553,911	315,086

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

2021	Total exposure	Fair value of collaterals: Cash margins	Precious metals	Real estate	Quoted stocks	Vehicles and other equipment	Total value of collaterals	Exposure net of collaterals	Expected credit loss
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	
Credit exposures related to items in the consolidated statement of financial position:									
Direct credit facilities and Islamic financing:									
Retail	43,835,261	2,035,298	12,717	6,656,264	-	3,175,278	11,879,557	31,955,704	24,571,583
Corporate and institutions	141,065,369	10,906,161	21,948	32,862,768	8,540	481,344	44,280,761	96,784,608	79,278,749
Total	184,900,630	12,941,459	34,665	39,519,032	8,540	3,656,622	56,160,318	128,740,312	103,850,332

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

December 31, 2022	Palestine	Arab Countries	Israel	Europe	USA	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with Palestine Monetary Authority	519,310,636	-	-	-	-	-	519,310,636
Balances, deposits and investments at Banks and financial institutions	18,508,357	230,375,742	54,604,996	230,642,273	10,728,311	47,437,797	592,297,476
Direct credit facilities and Islamic financing	3,516,682,780	51,845,472	31,372	2,056,857	1,438,384	-	3,572,054,865
Financial assets at amortized cost	51,953,159	97,782,001	-	10,821,352	28,678,524	52,071,436	241,306,472
Other financial assets	36,482,442	-	-	-	-	-	36,482,442
Total as at December 31, 2022	4,142,937,374	380,003,215	54,636,368	243,520,482	40,845,219	99,509,233	4,961,451,891
Total as at December 31, 2021	4,098,836,115	461,060,955	66,010,809	354,937,523	16,910,577	77,211,435	5,074,967,414

Concentration of credit risk exposures according to IFRS (9) Stages as at December 31, 2022 and 2021 is as follows:

	Stage (1)	Stage (2)	Stage (3)	2022
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	2,868,544,951	1,203,324,620	71,067,803	4,142,937,374
Arab countries	331,760,485	48,242,730	-	380,003,215
Israel	54,604,996	31,372	-	54,636,368
Europe	241,786,616	1,733,866	-	243,520,482
USA	40,845,219	-	-	40,845,219
Others	92,006,982	7,502,251	-	99,509,233
Total	3,629,549,249	1,260,834,839	71,067,803	4,961,451,891

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	3,093,365,200	946,318,578	58,952,337	4,098,636,115
Arab countries	414,843,531	46,217,424	-	461,060,955
Israel	66,010,809	-	-	66,010,809
Europe	353,007,150	1,930,373	-	354,937,523
USA	15,907,042	1,003,535	-	16,910,577
Others	67,560,301	9,107,020	1,864,114	78,531,435
Total	4,010,694,033	1,004,576,930	60,816,451	5,076,087,414

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

	Financial	Industrial	Commercial	Real estate	Palestine National Authority and other Governmental bonds	Others	Total
2022	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balances with Palestine Monetary Authority	519,310,636	-	-	-	-	-	519,310,636
Balances, deposits and investments at Banks and financial institutions	592,297,476	-	-	-	-	-	592,297,476
Direct credit facilities and Islamic financing	40,392,902	206,370,928	600,464,581	875,107,608	712,206,510	1,137,512,336	3,572,054,865
Financial assets at amortized cost	64,469,420	1,502,251	-	2,783,807	149,733,791	22,817,203	241,306,472
Other	-	-	-	-	-	36,482,442	36,482,442
December 31, 2022	1,216,470,434	207,873,179	600,464,581	877,891,415	861,940,301	1,196,811,981	4,961,451,891
December 31, 2021	1,449,677,936	203,171,341	541,334,526	759,297,653	984,441,945	1,137,044,013	5,074,967,414

Concentration of credit risk exposures according to IFRS (9) Stages as at December 31, 2022 and 2021 is as follows:

	Stage (1)	Stage (2)	Stage (3)	2022
	U.S. $	U.S. $	U.S. $	U.S. $
Financial sector	1,206,432,350	10,038,084	-	1,216,470,434
Industrial	165,393,145	39,551,795	2,928,239	207,873,179
Commercial	447,927,202	119,488,983	33,048,396	600,464,581
Real estate	624,958,705	235,349,245	17,583,465	877,891,415
Palestine National Authority	861,940,301	-	-	861,940,301
Others	322,897,546	856,406,732	17,507,703	1,196,811,981
Total	3,629,549,249	1,260,834,839	71,067,803	4,961,451,891

	Stage (1)	Stage (2)	Stage (3)	2021
	U.S. $	U.S. $	U.S. $	U.S. $
Financial sector	1,427,767,124	22,078,933	151,879	1,449,997,936
Industrial	111,008,839	86,757,631	5,404,871	203,171,341
Commercial	374,785,344	151,716,014	14,833,168	541,334,526
Real estate	318,766,337	420,814,686	19,716,630	759,297,653
Palestine National Authority	984,441,945	-	-	984,441,945
Others	793,924,444	323,209,666	20,709,903	1,137,844,013
Total	4,010,694,033	1,004,576,930	60,816,451	5,076,087,414

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios

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

Following are the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at December 31, 2022:

Macro-economic variables	Scenario used	Assigned weight for each scenario	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)	Percentage change in macro-economic variables (%)
		(%)	2022	2023	2024	2025	2026	2027
GDP	Base case	80	1.61	1.16	0.12	(0.18)	(0.13)	(0.08)
	Best case	10	9.96	7.78	6.74	6.44	6.49	6.54
	Worst case	10	(4.27)	(5.46)	(6.5)	(6.8)	(6.75)	(6.7)
Unemployment rates								
	Base case	80	5.69	3.8	2.49	2.17	2.29	1.95
	Best case	10	7.58	4.44	3.13	2.81	2.93	2.59
	Worst case	10	4.27	3.15	1.84	1.52	1.64	1.3

Following are 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 (%) 2021	Percentage change in macro-economic variables (%) 2022	Percentage change in macro-economic variables (%) 2023	Percentage change in macro-economic variables (%) 2024	Percentage change in macro-economic variables (%) 2025	Percentage change in macro-economic variables (%) 2026
GDP	Base case	-	5.69	2.70	(0.31)	(0.26)	(0.23)	(0.23)
	Best case	-	13.40	10.41	7.40	7.45	7.48	7.48
	Worst case	100	1.84	(1.16)	(4.17)	(4.12)	(4.09)	(4.09)
Unemployment rates								
	Base case	-	(12.42)	(7.80)	0.77	0.76	0.76	0.76
	Best case	-	(13.19)	(8.36)	0.83	0.82	0.82	0.82
	Worst case	100	(12.07)	(7.55)	0.74	0.74	0.73	0.73

Classification of debt securities based on risk rating:

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

	2022	2021
	Financial assets at amortized cost	Financial assets at amortized cost
Credit rating	U.S. $	U.S. $
Private sector:		
From A- to AAA	42,159,362	41,002,749
From B- to BBB+	38,117,934	33,768,711
Unrated	13,000,000	12,500,000
Governments and public sector	153,339,092	144,736,602
Total	246,616,388	232,008,062

II. Market risk

Market risk arises from changes in interest rates, exchange rates of foreign currencies and stock prices. The Bank's Board of Directors sets the limits for acceptable risks. This is periodically monitored by the Bank's management through risk management.

Interest rate risk

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

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

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

	2022		2021	
	Increase in interest rate	Interest income sensitivity (consolidated income statement)	Increase in interest rate	Interest income sensitivity (consolidated income statement)
Currency	(basis points)	U.S. $	(basis points)	U.S. $
US Dollar	10	835,856	10	688,486
Jordanian Dinar	10	195,681	10	346,492
New Israeli Shekels	10	806,862	10	663,217
Other currencies	10	17,790	10	(40,083)

Interest rate re-pricing sensitivity gap

December 31, 2022	Interest rate re-pricing sensitivity gap						
	less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and balances with Palestine Monetary Authority	-	16,737,731	-	-	-	1,786,777,724	1,803,515,455
Balances, deposits and investments at Banks and financial institutions	243,742,707	85,213,760	1,939,291	13,905,732	1,511,819	245,984,167	592,297,476
Financial assets at fair value through profit or loss	-	-	-	-	-	9,168,285	9,168,285
Direct credit facilities and Islamic financing	586,662,825	235,718,633	275,080,155	362,858,457	2,111,734,795	-	3,572,054,865
Financial assets at fair value through other comprehensive income	-	-	-	-	-	59,526,233	59,526,233
Financial assets at amortized cost	3,586,067	15,884,678	8,824,823	43,152,852	169,858,052	-	241,306,472
Investment in associates an a joint venture	-	-	-	-	-	11,996,852	11,996,852
Investment properties	-	-	-	-	-	22,930,742	22,930,742
Property, plant and equipment and right of us assets	-	-	-	-	-	109,275,425	109,275,425
Projects in progress	-	-	-	-	-	649,543	649,543
Intangible assets	-	-	-	-	-	14,984,886	14,984,886
Other assets	-	-	-	-	-	50,254,623	50,254,623
Total assets	833,991,599	353,554,802	285,844,269	419,917,041	2,283,104,666	2,311,548,480	6,487,960,857
Liabilities							
Palestine Monetary Authority deposits	-	86,475,760	89,311,038	-	20,000,000	3,317,152	199,103,950
Banks and financial institutions' deposits	24,502,442	10,804,650	7,371,705	-	-	50,989,214	93,668,011
Customers' deposits	1,156,980,673	124,914,294	67,365,206	119,323,978	99,320,583	3,398,708,621	4,966,613,355
Cash margins	-	10,036,307	33,014,959	56,331,218	200,728,003	-	300,110,487
Subordinated loan	-	-	7,500,000	7,500,000	45,000,000	-	60,000,000
Loans and borrowings	-	-	625,000	2,418,235	74,613,096	-	77,656,331
Istidama loans from Palestine Monetary Authority	1,670,448	-	-	-	22,238,408	8,201,758	32,110,614
Sundry provisions	-	-	-	-	-	52,355,497	52,355,497
Taxes provisions	-	-	-	35,440,008	-	-	35,440,008
Lease liabilities	-	-	-	-	-	30,105,511	30,105,511
Other liabilities	-	-	-	-	-	94,874,472	94,874,472
TOTAL LIABILITIES	1,183,153,563	232,231,011	205,187,908	221,013,439	461,900,090	3,638,552,225	5,942,038,236
Equity							
Paid-in share capital	-	-	-	-	-	223,958,577	223,958,577
Additional paid-in capital	-	-	-	-	-	29,575,688	29,575,688
Statutory reserve	-	-	-	-	-	67,974,894	67,974,894
Voluntarily reserve	-	-	-	-	-	246,361	246,361
General Banking risks reserve	-	-	-	-	-	8,374,676	8,374,676
Pro-cyclicality reserve	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	3,344,655	3,344,655
Retained earnings	-	-	-	-	-	107,929,885	107,929,885
Total equity holders of the Bank	-	-	-	-	-	481,404,736	481,404,736
Non-controlling interests	-	-	-	-	-	64,517,885	64,517,885
Total equity	-	-	-	-	-	545,922,621	545,922,621
Total liabilities and equity	1,183,153,563	232,231,011	205,187,908	221,013,439	461,900,090	4,184,474,846	6,487,960,857
Interest rate re-pricing sensitivity gap	(349,161,964)	121,323,791	80,656,361	198,903,602	1,821,204,576	(1,872,926,366)	-
Cumulative gap	(349,161,964)	(227,838,173)	(147,181,812)	51,721,790	1,872,926,366	-	-

Interest rate re-pricing sensitivity gap

December 31, 2021	Interest rate re-pricing sensitivity gap						
	less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than a year	Non-interest-bearing items	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	987,451,673	440,250,549	367,313,719	1,383,810,175	1,101,303,269	2,228,092,421	6,508,221,806
Total liabilities and equity	771,678,304	570,100,032	377,919,006	604,682,308	297,637,655	3,886,204,501	6,508,221,806
Interest rate re-pricing sensitivity gap	215,773,369	(129,849,483)	(10,605,287)	779,127,867	803,665,614	(1,658,112,080)	-
Cumulative gap	215,773,369	85,923,886	75,318,599	854,446,466	1,658,112,080	-	-

InterBank offered rate (IBOR) Reforms

A fundamental adjustment is being made to key interest rate benchmarks globally, including the replacement of certain IBORs with nearly risk-free alternative rates (referred to as IBOR). The Bank is exposed to IBOR interest rate risk on its financial instruments, some of which have already been transferred, and others will be transferred on the date of transition as part of these initiatives at the market level. The Bank is following up on the market closely and what is issued by the various relevant authorities that manage the transition to reference interest rates, including instructions issued by the regulators.

Contracts containing the LIBOR rate as a reference rate will be adjusted to the one-day risk-free interest rates in line with best market practices as follows:

Currency	IBOR	Alternative interest rate	Transition date
USD	USD LIBOR (3&6 months)	CME TERM SOFR USD 3 and 6 months	1 January 2022
EUR	LIBOR EUR/price InterBank offered interest rate	Interest rate approved by the Bank is Euribor	1 January 2022

The Bank aims to maintain economic parity, by ensuring that the financial terms of the transition are in line with market practices regarding margin adjustments. Margin adjustments issued by International Swaps and Derivatives Association (ISDA) and announced on March 5, 2021 at the time of the transition. As a result, no material impact on profit or loss is expected. For contracts in currencies other than the US dollar, the transfer took place on the specified dates. For contracts in the US dollar currency that include any of the following periods (one month, three months, six months, or one year), the adjustment will take place on or before June 30, 2023.

Foreign currency risk

These are the risks of the change in value of financial instruments resulting from the change in foreign exchange rates. The US Dollar is the functional currency of the Bank. The Bank's Board of Directors annually sets the limits of the financial position for each currency, and such position is monitored on daily basis and hedging strategies are used to ensure maintaining the foreign currency position within the set limits.

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

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

	2022		2021	
	Increase in currency rate	Effect on consolidated income statement	Increase in currency rate	Effect on consolidated income statement
Currency	(%)	U.S. $	(%)	U.S. $
New Israeli Shekels	10	(338,872)	10	(282,760)
Other currencies	10	337,087	10	1,260,456

Following is the foreign currencies position of the Bank:

December 31, 2022	JOD U.S. $	ILS U.S. $	Others U.S. $	Total U.S. $
Assets				
Cash and balances with Palestine Monetary Authority	184,481,341	1,238,427,707	14,394,225	1,437,303,273
Balances, deposits and investments at Banks and financial institutions	248,014,583	56,049,438	76,632,758	380,696,779
Direct credit facilities and Islamic financing	303,656,160	1,609,740,487	76,117,790	1,989,514,437
Financial assets at fair value through other comprehensive Income	34,267,666	-	2,550,754	36,818,420
Financial assets at amortized cost	61,464,119	25,378,774	9,455,224	96,298,117
Other assets	4,951,209	8,915,221	647,382	14,513,812
Forward deals	20,350,229	21,023,720	2,947,834	44,321,783
Total assets	857,185,307	2,959,535,347	182,745,967	3,999,466,621
Liabilities				
Palestine Monetary Authority deposits	1,411,444	176,675,937	1,905,709	179,993,090
Banks and financial institutions' deposits	313,090	38,093,607	9,045,700	47,452,397
Customers' deposits	814,333,756	2,209,078,978	138,734,034	3,162,146,768
Cash margins	24,069,827	148,087,251	6,498,077	178,655,155
Loans and borrowings	-	-	11,307,125	11,307,125
Other liabilities	10,112,572	20,424,852	4,167,116	34,704,540
Forward deals	-	366,935,149	4,809,376	371,744,525
Total liabilities	850,240,689	2,959,295,774	176,467,137	3,986,003,600
Consolidated statement of financial position concentration, net	6,944,618	239,573	6,278,830	13,463,021
Off-balance sheet potential commitments	17,312,447	209,165,461	35,481,845	261,959,753

December 31, 2021	JOD	ILS	Others	Total
Total assets	988,824,355	3,063,045,807	225,828,375	4,277,698,537
Total liabilities	987,644,874	3,065,873,407	213,223,814	4,266,742,095
Consolidated statement of financial position concentration, net	1,179,481	(2,827,600)	12,604,561	10,956,442
Off-balance sheet potential commitments	32,134,277	180,767,719	42,404,046	255,306,042

Equity price risk

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

		2022		2021	
	Increase in index	Effect on consolidated income statement	Effect On equity	Effect on consolidated income statement	Effect on equity
Market index	(%)	U.S. $	U.S. $	U.S. $	U.S. $
Local markets - Qouted	10	64,405	2,496,848	50,092	1,748,100
Local markets - UnQouted	10	348,485	991,296	392,043	353,547
Foreign markets - Qouted	10	85,874	2,199,404	83,250	1,956,084
Foreign markets - UnQouted	10	418,065	265,075	500,000	167,795

III. Liquidity risk

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

The table below summarizes the assets and liabilities on the basis of the remaining contractual maturities as at December 31, 2022 and 2021, respectively:

December 31, 2022	Less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets								
Cash and balances with Palestine Monetary Authority	1,659,855,110	16,737,732	-	-	-	-	126,922,613	1,803,515,455
Balances, deposits and investments at Banks and financial institutions	406,955,909	117,921,797	20,975,674	44,932,277	1,511,819	-	-	592,297,476
Financial assets at fair value through profit or loss	-	-	-	-	-	-	9,168,285	9,168,285
Direct credit facilities and Islamic financing	581,662,827	230,718,633	238,548,148	428,879,093	804,073,722	1,288,172,442	-	3,572,054,865
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	59,526,233	59,526,233
Financial assets at amortized cost	3,586,067	15,884,678	8,824,823	43,152,852	74,066,631	95,791,421	-	241,306,472
Investment in associates and a joint venture	-	-	-	-	-	-	11,996,852	11,996,852
Investment properties	-	-	-	-	-	-	22,930,742	22,930,742
Property, plant and equipment and right of use assets	-	-	-	-	-	-	109,275,425	109,275,425
Projects in progress	-	-	-	-	-	-	649,543	649,543
Intangible assets	-	-	-	-	-	-	14,984,886	14,984,886
Other assets	7,324,453	14,529,771	2,900,461	1,354,253	-	-	24,145,685	50,254,623
Total assets	2,659,384,366	395,792,611	271,249,106	518,318,475	879,652,172	1,383,963,863	379,600,264	6,487,960,857
Liabilities								
Palestine Monetary Authority deposits	3,317,152	86,475,760	89,311,038	-	20,000,000	-	-	199,103,950
Banks and financial institutions' deposits	77,565,055	4,738,766	9,519,696	-	1,844,494	-	-	93,668,011
Customers' deposits	3,755,793,717	323,934,204	299,530,666	482,828,355	63,173,547	41,352,866	-	4,966,613,355
Cash margins	-	10,036,307	33,014,959	56,331,218	158,901,714	41,826,289	-	300,110,487
Subordinated loan	-	-	7,500,000	7,500,000	30,000,000	15,000,000	-	60,000,000
Loans and borrowings	-	-	625,000	2,418,235	23,955,433	50,657,663	-	77,656,331
Istidama loans from Palestine Monetary Authority	1,670,448	-	-	-	10,211,281	20,228,885	-	32,110,614
Sundry provisions	-	-	-	9,681,011	-	-	42,674,486	52,355,497
Taxes provisions	-	-	-	35,440,008	-	-	-	35,440,008
Lease liabilities	7,866,540	595,729	453,508	2,041,961	12,514,873	6,632,900	-	30,105,511
Other liabilities	77,496,209	278,468	9,531,457	7,102,152	-	-	466,186	94,874,472
Total liabilities	3,923,709,121	426,059,234	449,486,324	603,342,940	320,601,342	175,698,603	43,140,672	5,942,038,236
Equity								
Paid-in share capital	-	-	-	-	-	-	223,958,577	223,958,577
Additional paid-in capital	-	-	-	-	-	-	29,575,688	29,575,688
Statutory reserve	-	-	-	-	-	-	67,974,894	67,974,894
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General Banking risks reserve	-	-	-	-	-	-	8,374,676	8,374,676
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	3,344,655	3,344,655
Retained earnings	-	-	-	-	-	-	107,929,885	107,929,885
Total equity holders of the Bank	-	-	-	-	-	-	481,404,736	481,404,736
Non-controlling interests	-	-	-	-	-	-	64,517,885	64,517,885
Total equity	-	-	-	-	-	-	545,922,621	545,922,621
Total liabilities and equity	3,923,709,121	426,059,234	449,486,324	603,342,940	320,601,342	175,698,603	589,063,293	6,487,960,857
Maturity gap	(1,264,324,755)	(30,266,623)	(178,237,218)	(85,024,465)	559,050,830	1,208,265,260	(209,463,029)	-
Cumulative gap	(1,264,324,755)	(1,294,591,378)	(1,472,828,596)	(1,557,853,061)	(998,802,231)	209,463,029	-	-

December 31, 2021	Less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets								
Cash and balances with Palestine Monetary Authority	1,779,579,889	-	-	-	-	-	-	1,779,579,889
Balances, deposits and investments at Banks and financial institutions	590,695,912	71,806,945	33,421,175	-	-	-	86,306,281	782,230,313
Financial assets at fair value through profit or loss	-	-	-	10,253,849	-	-	-	10,253,849
Direct credit facilities and Islamic financing	185,159,286	238,974,733	280,788,331	410,642,794	935,042,903	1,402,599,113	-	3,453,207,160
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	42,255,262	42,255,262
Financial assets at amortized cost	14,414,320	18,660,030	12,472,978	38,574,030	92,772,467	51,951,592	-	228,845,417
Investment in associates and a joint venture	-	-	-	-	-	-	9,671,052	9,671,052
Investment properties	-	-	-	-	-	-	25,962,178	25,962,178
Property, plant and equipment and right of use assets	-	-	-	-	-	-	115,897,814	115,897,814
Projects in progress	-	-	-	-	-	-	1,366,792	1,366,792
Intangible assets	-	-	-	-	-	-	14,613,893	14,613,893
Other assets	9,668,411	13,975,857	4,676,273	2,567,138	-	-	13,450,508	44,338,187
Total assets	2,579,517,818	343,417,565	331,358,757	462,037,811	1,027,815,370	1,454,550,705	309,523,780	6,508,221,806
Liabilities								
Palestine Monetary Authority deposits	51,109,510	171,329,597	-	-	20,000,000	-	-	242,439,107
Banks and financial institutions' deposits	99,104,929	19,997,039	-	1,993	957,907	-	-	120,061,868
Customers' deposits	1,008,542,155	490,554,651	519,634,848	690,394,959	906,703,642	1,397,721,071	-	5,013,551,326
Cash margins	132,793,473	27,092,682	36,275,334	68,443,218	26,602,821	380,748	-	291,588,276
Subordinated loan	-	-	-	7,500,000	30,000,000	35,000,000	-	72,500,000
Loans and borrowings	672,125	-	672,125	1,386,411	10,990,087	34,721,752	-	48,442,500
Istidama loans from Palestine Monetary Authority	-	-	-	943,406	14,848,893	6,515,253	-	22,307,552
Sundry provisions	-	-	-	-	-	-	50,983,323	50,983,323
Taxes provisions	-	-	-	21,492,314	-	-	-	21,492,314
Lease liabilities	-	-	-	-	-	-	31,900,160	31,900,160
Other liabilities	74,257,348	250,000	8,557,053	13,476,492	-	-	315,058	96,855,951
Total liabilities	1,366,479,540	709,223,969	565,139,360	803,638,793	1,010,103,350	1,474,338,824	83,198,541	6,012,122,377
Equity								
Paid-in share capital	-	-	-	-	-	-	217,433,527	217,433,527
Additional paid-in capital	-	-	-	-	-	-	29,575,688	29,575,688
Statutory reserve	-	-	-	-	-	-	61,883,607	61,883,607
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General Banking risks reserve	-	-	-	-	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	(1,692,549)	(1,692,549)
Retained earnings	-	-	-	-	-	-	77,612,532	77,612,532
Total equity holders of the Bank	-	-	-	-	-	-	435,371,043	435,371,043
Non-controlling interests	-	-	-	-	-	-	60,728,386	60,728,386
Total equity	-	-	-	-	-	-	496,099,429	496,099,429
Total liabilities and equity	1,366,479,540	709,223,969	565,139,360	803,638,793	1,010,103,350	1,474,338,824	579,297,970	6,508,221,806
Maturity gap	1,213,038,278	(365,806,404)	(233,780,603)	(341,600,982)	17,712,020	(19,788,119)	(269,774,190)	-
Cumulative gap	1,213,038,278	847,231,874	613,451,271	271,850,289	289,562,309	269,774,190	-	-

The following table shows the balances of the Bank's undiscounted consolidated financial liabilities as on December 31, 2022 and 2021 according to the contractual maturity period:

December 31, 2022	Less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Liabilities								
Palestine Monetary Authority deposits	3,317,152	89,173,343	92,097,067	-	20,000,000	-	-	204,587,562
Banks and financial institutions' deposits	77,565,055	5,127,345	10,300,311	-	1,844,494	-	-	94,837,205
Customers' deposits	3,755,793,717	327,173,546	302,525,972	487,656,639	66,332,225	47,555,796	-	4,987,037,895
Cash margins	-	10,036,307	33,345,110	56,894,529	160,490,731	42,244,552	-	303,011,229
Subordinated loan	-	-	8,075,963	8,075,963	32,303,850	16,180,125	-	64,635,901
Loans and borrowings	-	-	670,313	2,594,244	24,932,052	54,330,344	-	82,526,953
Istidama loans from Palestine Monetary Authority	1,753,970	-	-	-	10,721,845	21,240,329	-	33,716,144
Sundry provisions	-	-	-	9,681,011	-	-	42,674,486	52,355,497
Taxes provisions	-	-	-	35,440,008	-	-	-	35,440,008
Lease liabilities	7,866,540	595,729	453,508	2,041,961	12,514,873	8,452,528	-	31,925,139
Other liabilities	77,496,209	278,468	9,531,457	7,102,152	-	-	466,186	94,874,472
Total liabilities	3,923,792,643	432,384,738	456,999,701	609,486,507	329,140,070	190,003,674	43,140,672	5,984,948,005

December 31, 2021	Less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Liabilities								
Palestine Monetary Authority deposits	51,109,510	163,624,631	6,708,815	21,039,120	-	-	-	242,482,076
Banks and financial institutions' deposits	19,987,102	98,060,606	2,130,219	-	-	-	-	120,177,927
Customers' deposits	1,018,030,578	727,796,802	539,533,586	714,022,949	932,211,283	1,082,358,276	-	5,013,953,474
Cash margins	133,909,537	27,580,217	37,318,902	69,870,400	27,331,643	475,459	-	296,486,158
Subordinated loan	-	-	2,159,129	5,192,189	18,300,451	50,109,210	-	75,760,979
Loans and borrowings	-	-	2,340,912	11,519,790	35,763,405	-	-	49,624,107
Istidama loans from Palestine Monetary Authority	-	-	-	12,948,123	10,802,480	-	-	23,750,603
Sundry provisions	-	-	-	-	-	-	50,983,323	50,983,323
Taxes provisions	-	-	-	21,492,314	-	-	-	21,492,314
Lease liabilities	-	1,230,191	2,309,412	3,223,981	8,819,921	16,889,821	-	32,473,326
Other liabilities	75,310,702	1,258,500	8,947,993	11,469,502	-	-	-	96,986,697
Total liabilities	1,298,347,429	1,019,550,947	601,448,968	870,778,368	1,033,229,183	1,149,832,766	50,983,323	6,024,170,984

Liquidity Coverage Ratio (LCR)

During 2018, PMA issued instructions No. (4/2018) regarding Liquidity Coverage Ratio (LCR) which is considered one of the quantitative corrective tools issued by Basel Committee. LCR should not be lower than 100% in any case. LCR objective is to promote the short-term resilience of the liquidity risk profile of the Bank by ensuring that they have sufficient High-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, and to keep the Bank services from the day of the stress until the Bank initiates corrective procedures in an efficient way.

The table below shows the calculation of the liquidity coverage ratio for the year ending December 31, 2022:

	Amount before discount rates / average flows	Amount after discount rates / average flows
	U.S. $	U.S. $
Total high quality liquid assets	1,999,150,519	1,936,312,730
Retail deposits including small institutions' deposits:		
A- Stable deposits	1,342,642,907	67,132,145
B- Less stable deposits	2,820,564,286	243,819,865
Deposits and other unguaranteed facilities for companies without retail and small institutions' customers**:**		
A- Operational deposits	191,660,073	47,915,018
B- Non-operational deposits	1,332,413,806	381,572,607
Guaranteed financing and deposits	5,687,281,072	740,439,635
Non-cancelled and cancelled credit lines and required liquidity within 30 days	513,205,859	160,993,767
Any other cash outflows	165,198,251	11,082,738
Total cash outflows	6,365,685,182	912,516,140
Guaranteed lending	62,240,405	31,120,203
Cash inflow from performing loans	495,565,564	313,220,627
Total cash inflow	557,805,969	344,340,830
Net cash outflow after adjustments		568,175,311
Total high-quality liquid assets after adjustments		1,936,312,730
Net cash outflow after adjustment		568,175,311
Liquidity Coverage Ratio (%)		341%

The table below shows the calculation of the liquidity coverage ratio for the year ending December 31, 2021:

	Amount before discount rates / average flows	Amount after discount rates / average flows
	U.S. $	U.S. $
Total high quality liquid assets	2,164,917,110	2,014,566,910
Retail deposits including small institutions' deposits:		
A- Stable deposits	2,054,400,341	141,899,781
B- Less stable deposits	2,002,895,146	156,854,813
Deposits and other unguaranteed facilities for companies without retail and small institutions' customers**:**		
A- Operational deposits	208,810,507	52,202,627
B- Non-operational deposits	1,659,447,851	595,680,294
Guaranteed financing and deposits	5,925,553,845	946,637,515
Non-cancelled and cancelled credit lines and required liquidity within 30 days	472,016,161	135,571,064
Any other cash outflows	152,514,631	10,405,650
Total cash outflows	6,550,084,637	1,092,614,229
Guaranteed lending	40,844,180	20,422,090
Cash inflow from performing loans	708,537,825	439,992,156
Total cash inflow	749,382,005	460,414,246
Net cash outflow after adjustments		632,199,983
Total high-quality liquid assets after adjustments		2,014,566,910
Net cash outflow after adjustment		632,199,983
Liquidity Coverage Ratio (%)		319

Net Stable Funding Ratio (NSFR)

The PMA's instructions No. (5/2018) have been issued regarding the application of the stable net financing ratio, as the net stable financing ratio aims to enhance the Bank's liquidity risk management by maintaining more stable sources of financing to align the maturities of assets inside and outside the budget and reduce the Bank's dependence on short-term and unstable sources of financing in financing its assets.
The table below shows the calculation of the net stable financing ratio for the year ending on December 31, 2022:

Description	2022
	U.S. $
Regulatory capital	595,599,849
Stable retail deposits and small institutions	1,289,461,163
Less stable retail deposits and small institutions	2,374,551,971
Guaranteed and unguaranteed financing (deposits)	584,683,244
Other deposits and financing	-
Other commitments (not included in the previous categories)	206,506,830
Gross stable financing available	5,050,803,057
Level 1 unrestricted high quality liquid assets	1,131,749
Level 2 -type (A) unrestricted high quality liquid assets	40,972,376
Level 2 -type (B) unrestricted high quality liquid assets	46,623,661
Loans	2,216,095,321
Debt instruments issued or guaranteed by Banks and financial institutions	18,460,058
Other unquoted investments (not included in the previous categories)	49,391,559
Other quoted investments (not included in the previous categories)	129,854,066
Non-performing loans	23,917,514
Other assets	477,182,268
Contingent non-cancelled and cancelled credit facilities and liquidity	15,774,565
Other future and potential financing commitments:	10,299,203
Other non-contractual commitments	2,649,375
Off balance sheet exposures not included in the previous categories	9,848
Total stable financing required	3,032,361,563
Net stable financing ratio	%167

The table below shows the calculation of the net stable financing ratio for the year ending on December 31, 2021:

Description	2021
	U.S. $
Regulatory capital	546,457,129
Stable retail deposits and small institutions	1,221,243,028
Less stable retail deposits and small institutions	2,313,184,445
Guaranteed and unguaranteed financing (deposits)	571,417,166
Other deposits and financing	48,442,500
Other commitments (not included in previous categories)	200,752,325
Gross stable financing available	4,901,496,593
Level 1 unrestricted high quality liquid assets	242,176
Level 2 -type (A) unrestricted high quality liquid assets	60,329,108
Level 2 -type (B) unrestricted high quality liquid assets	37,603,676
Loans	831,739,416
Housing loans not mortgaged	159,906,059
Debt instruments issued or guaranteed by Banks and financial institutions	31,541,510
Other unquoted investments	79,370,610
Other quoted investments	87,068,516
Non-performing loans	47,776,133
Other assets	455,681,688
Contingent non-cancelled and cancelled credit facilities and liquidity	15,950,609
Other future and potential financing commitments	10,869,804
Other non-contractual commitments	2,231,961
Off balance sheet exposures not included in the previous categories	17,106
Total stable financing required	1,820,328,372
Net stable financing ratio	269%

Financial Leverage Ratio

The Palestine Monetary Authority issued Instructions No. (24/2021) regarding the application of the financial leverage ratio, as these instructions aim to reduce the accumulation of financial leverage in Banks in order to reduce any pressures on the financial system and the economy in general, and to enhance capital requirements, and it should be noted that the leverage ratio in all cases should not be less than 4%.

The table below shows the calculation of the financial leverage ratio as at December 31, 2022:

	2022
	U.S. $
Total Exposure Scale	7,090,249,172
Regulatory amendments related to investments in banks, financial institutions, insurance companies, and commercial entities combined for accounting purposes, but outside the scope of the regulatory assembly	-
Amendments related to derivatives exposures	9,810,506
Amendments related to securities financing operations	-
Amendments related to items outside the statement of financial position	386,273,000
Other amendments/exposures	19,207,644
Total Leverage Exposure Scale	6,674,958,022
First tranche of capital	482,612,045
Leverage Ratio	7.23%

48. Segment information

Information on the Bank's business segments

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

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

Corporates, institutions and public sector: includes following up on customer deposits, credit facilities and other Banking services for corporate, institutional and public sector clients.

Treasury: includes providing trading and treasury services and managing Bank's funds and investments.

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

December 31, 2022	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	103,487,027	178,440,069	54,946,263	7,092,705	343,966,064
Provision of expected credit losses	(7,353,099)	(17,466,212)	(3,579,449)	300,000	(28,098,760)
Written off credit facilities not previously provided for	(1,921,400)	-	-	-	(1,921,400)
Segment results					313,945,904
Unallocated expenses					(206,608,071)
Profit before taxes					107,337,833
Taxes expense					(40,691,196)
Profit for the year					66,646,637
Other information					
Depreciation and amortization					(17,871,196)
Capital expenditures					(8,872,172)
Gross segment assets	1,139,074,845	2,432,980,020	2,740,741,515	175,164,477	6,487,960,857
Gross segment liabilities	3,391,122,773	1,875,601,069	462,538,906	212,775,488	5,942,038,236

December 31, 2021	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	122,796,493	154,847,723	30,506,825	8,429,423	316,580,464
Provision of expected credit losses	(297,605)	(22,183,466)	(1,833,077)	(300,000)	(24,614,148)
Written off credit facilities not previously provided for	(2,052,766)	-	-	-	(2,052,766)
Segment results					289,913,550
Unallocated expenses					(205,308,697)
Profit before taxes					84,604,853
Taxes expense					(28,350,526)
Profit for the year					56,254,327
Other information					
Depreciation and amortization					(17,927,102)
Capital expenditures					(9,487,280)
Gross segment assets	1,141,429,650	2,311,777,510	2,852,835,782	202,178,864	6,508,221,806
Gross segment liabilities	3,486,088,530	1,819,051,072	505,751,027	201,231,748	6,012,122,377

Geographical distribution information

The following is the geographical distribution of the Bank's businesses. The Bank mainly carries out its business in Palestine, in addition to foreign operations.

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

	Domestic		Foreign		Total	
	2022	2021	2022	2021	2022	2021
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	329,206,090	299,054,139	14,759,974	17,526,325	343,966,064	316,580,464
Gross segment assets	5,681,427,246	5,587,593,535	806,533,611	920,628,271	6,487,960,857	6,508,221,806
Capital expenditures	8,872,172	9,487,280	-	-	8,872,172	9,487,280

49. Capital management

The main objective of managing the Bank's capital is to maintain appropriate capital ratios in a way that supports the Bank's activity and maximizes shareholders' equity. The Bank manages the capital structure and makes the necessary adjustments to it in light of changes in economic conditions and the nature of the business. The Bank did not make any amendments to the objectives, policies and procedures related to capital structuring during the current year and the previous year, except that the Bank raised its paid-in share capital by U.S. $ 6,525,050 and U.S. $ 2,080,800, respectively, through share distributions. In addition, during 2021, the Bank raised its paid-in share capital through admission of a strategic partner (note 1).

During the year 2022, the Bank signed an agreement with the Japan International Cooperation Agency (JICA) to invest U.S. $ 30 million in a perpetual loan within the additional first tranche of the Bank's regulatory capital, after obtaining the approval of the Palestinian Monetary Authority, in order to enhance the financial solvency of the Bank's capital and increase its ability to finance small and medium enterprises. Subsequent to the date of the consolidated financial statements, the necessary procedures were completed and JICA transferred the value of the perpetual loan to the Bank, and the agreement will be completed after obtaining the approval of the Bank's general assembly.

Bank of Palestine has been classified as a Bank of systemic importance at the local level in accordance with the general framework of Banks of systemic importance approved by the Board of Directors of the PMA.

The capital adequacy ratio for the year 2022 is computed in accordance with the PMA's instructions No. (8/2018) derived from Basel III international regulations.

The following are the capital adequacy rates:

	2022			2021		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	%	%	U.S. $	%	%
Regulatory capital	595,599,847	9.18	15.81	546,457,128	8.40	15.22
Basic capital	482,612,045	7.42	12.81	429,801,647	6.60	11.97

The Bank manages its capital in a way that ensures the continuity of its operations and achieves the highest possible return on shareholders' equity. The capital for the year ended 2022 is computed in accordance with PMA instructions No. (8/2018) derived from Basel III international regulations, as shown in the following table:

	2022	2021
	U.S. $	U.S. $
Net common stocks (CET 1)	475,970,041	423,226,602
The first bracket of capital	482,612,045	429,801,647
The second bracket of capital	112,987,802	116,655,481
Capital base	595,599,847	546,457,128
Credit risk	3,243,537,444	3,107,256,594
Market risk	32,329,301	34,291,742
Operational risk	490,393,334	447,851,084
Total risk weighted assets	3,766,260,079	3,589,399,420
Percentage of common stocks (CET 1) to risk weighted assets	12.64%	11,79%
Percentage of the first bracket of capital to risk weighted assets	12.81%	11,97%
Percentage of the second bracket of capital to risk weighted assets	3.00%	3,25%
Percentage of the first bracket to assets	7.42%	6,60%
Percentage of regulatory capital to assets	9.18%	8,40%
Capital adequacy ratio	15.81%	15,22%

50. Commitments and contingent liabilities

The total outstanding commitments and contingent liabilities are as follows:

	2022	2021
	U.S. $	U.S. $
Letters of guarantees	212,390,048	206,492,217
Letters of credit	38,797,292	46,069,513
Acceptances	7,784,207	9,417,798
Unutilized direct credit facilities limits	315,491,295	286,553,199
Others	196,950	322,700
	574,659,792	548,855,427
Less:		
Provision of expected credit losses	(552,520)	(315,086)
	574,107,272	548,540,341

Outstanding forward deals contracts for the sale and purchase of currencies for existing customers as at December 31, 2022 and December 31, 2021 amounted to U.S $ 9,909,602 and U.S. $ 35,041,435, 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 up 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:

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	446,739,985	102,115,442	-	548,855,427
Net change during the year	55,171,336	(29,366,971)	-	25,804,365
Balance ending of the year	501,911,321	72,748,471	-	574,659,792

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	550,791,322	50,040,463	-	600,831,785
Net change during the year	(104,051,337)	52,074,979	-	(51,976,358)
Balance ending of the year	446,739,985	102,115,442	-	548,855,427

The movement on expected credit losses provision on indirect credit facilities and Islamic financing is as follows:

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	142,407	172,679	-	315,086
Net expected credit losses for the year	34,726	202,708	-	237,434
Balance ending of the year	177,133	375,387	-	552,520

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	298,586	3,567	-	302,153
Net expected credit losses for the year	(156,179)	169,112	-	12,933
Balance ending of the year	142,407	172,679	-	315,086

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

51. Lawsuits against the Bank

The number of lawsuits filed against the Bank and its subsidiaries as at December 31, 2022 and 2021 was (244) and (248), respectively and that's within the normal course of business with a total amount of U.S. $ 67,518,916 and U.S. $ 69,672,366, 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. 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 year 2023.

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.

52. Development policy

The Bank's development policy includes the following:

- Continue cooperating with the International Financial Institutions to design SME's finance programs.
- Develop finance programs and services for women to meet their Banking needs.
- Focus on risk management to maintain performance and sustainable growth.
- Develop the Bank's computer systems and information technology including the requirements of the international standards reporting.
- Provide training opportunities for the Bank's employees at different levels.
- Continue to develop the Bank's electronic apps.

53. 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.

54. Comparative figures

Some of the balances of the consolidated financial statements as at December 31, 2021 have been reclassified to match the presentation of the balances of the consolidated financial statements as at December 31, 2022. These reclassifications do not affect the profits of previous years or equity.