بنك فلسطين
BANK OF PALESTINE
Established 1960 تأسس عام

# Forging Ahead with Resilience, Hope and Ambition

**Annual Report** 2023

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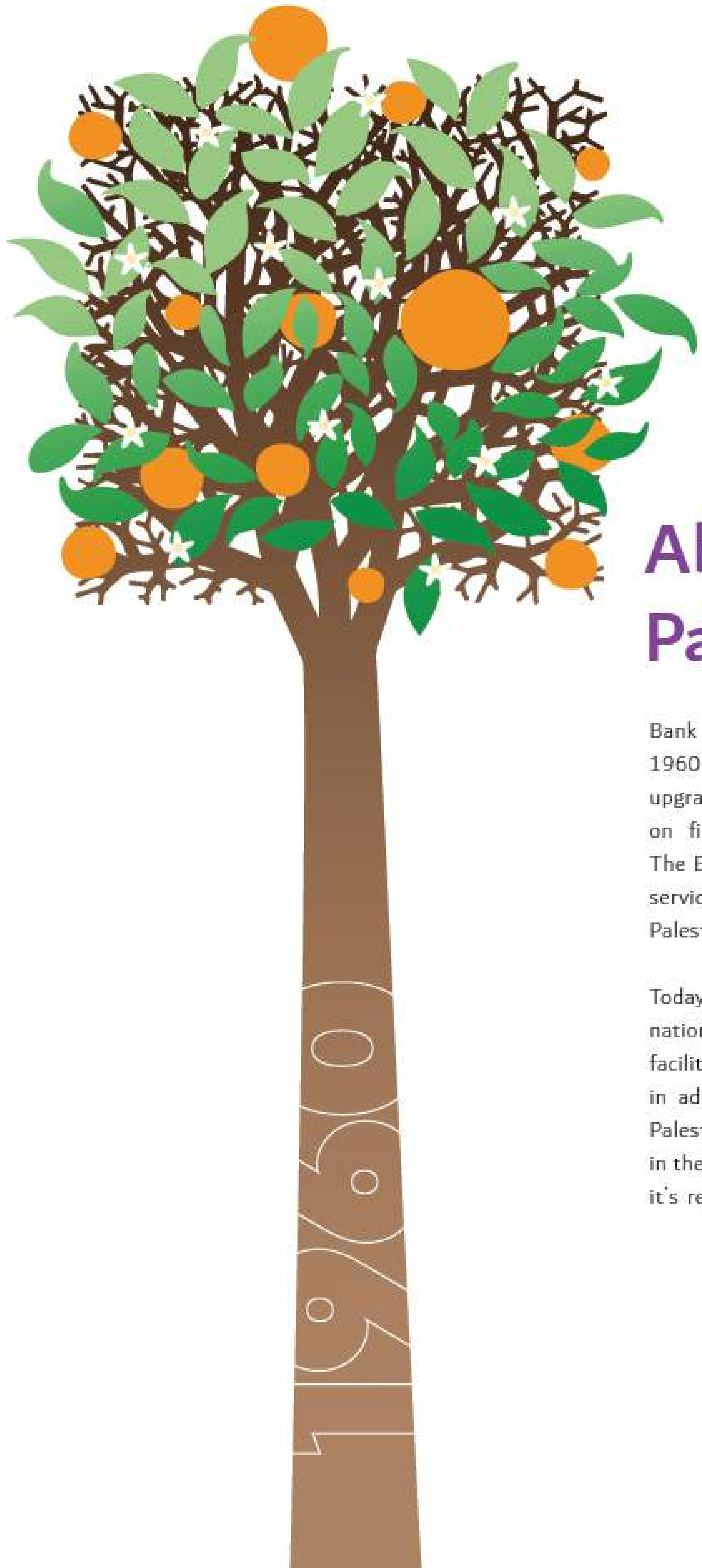



## About Bank of Palestine Group

Bank of Palestine was established in Gaza City in 1960 as a leading financial institution that seeks to upgrade banking services in Palestine, while focusing on financing small and medium-sized enterprise. The Bank developed its operations and expanded its services to respond to the financial needs of various Palestinian sectors and segments.

Today, Bank of Palestine is considered the largest national banking institution in terms of assets, credit facilities, profits, number of employees, market value in addition to it's widespread presence across the Palestinian governorates, and international presence in the United Arab Emirates, with plans to implement it's regional expansion strategy.

Overview - Corporate Governance - Strategic Review - Operational Review - Bank of Palestine Group - Financial Statements

# A glimpse of our Journey

**1960**
- The establishment of Bank of Palestine

**1981**
- The first bank in Palestine to start using computers

**1994**
- Relationship building with global banks

**1995**
- The first bank in Palestine to adopt the SWIFT system

**1998**
- The first and only bank in Palestine to establish a Visa and Master Card center for banking cards transactions

**2000**
- The introduction of ATMs and Points of Sale

**2002**
- The establishment of an International Trade Department dealing with the Global Banking Network

**2005**
- Listing Bank of Palestine shares on the Palestine Exchange

**2006**
- The establishment of Al Wasata Securities Company, the investment arm of Bank of Palestine Group

**2009**
- Launching the GPRS and the first drive-thru ATM

**2011**
- The establishment of PalPay Company for electronic payment solutions

**2015**
- Launching the first Bank of Palestine Representative Office in Dubai, UAE.
- Launching the Felestineya program for women empowerment and financial inclusion

**2016**
- The merger of the Palestine Commercial Bank with Bank of Palestine
- Bank of Palestine joins the Global Alliance for Banking on Values (GABV)
- Acquisition of majority shares in the Arab Islamic Bank

**2017**
- Launching the second Bank of Palestine Representative Office in Santiago, Chile

**2018**
- Participation in global initiatives on ESG projects with the International Finance Corporation (IFC) and the French Development Agency (AFD)
- Launching the mobile branch – Banke Rahhal

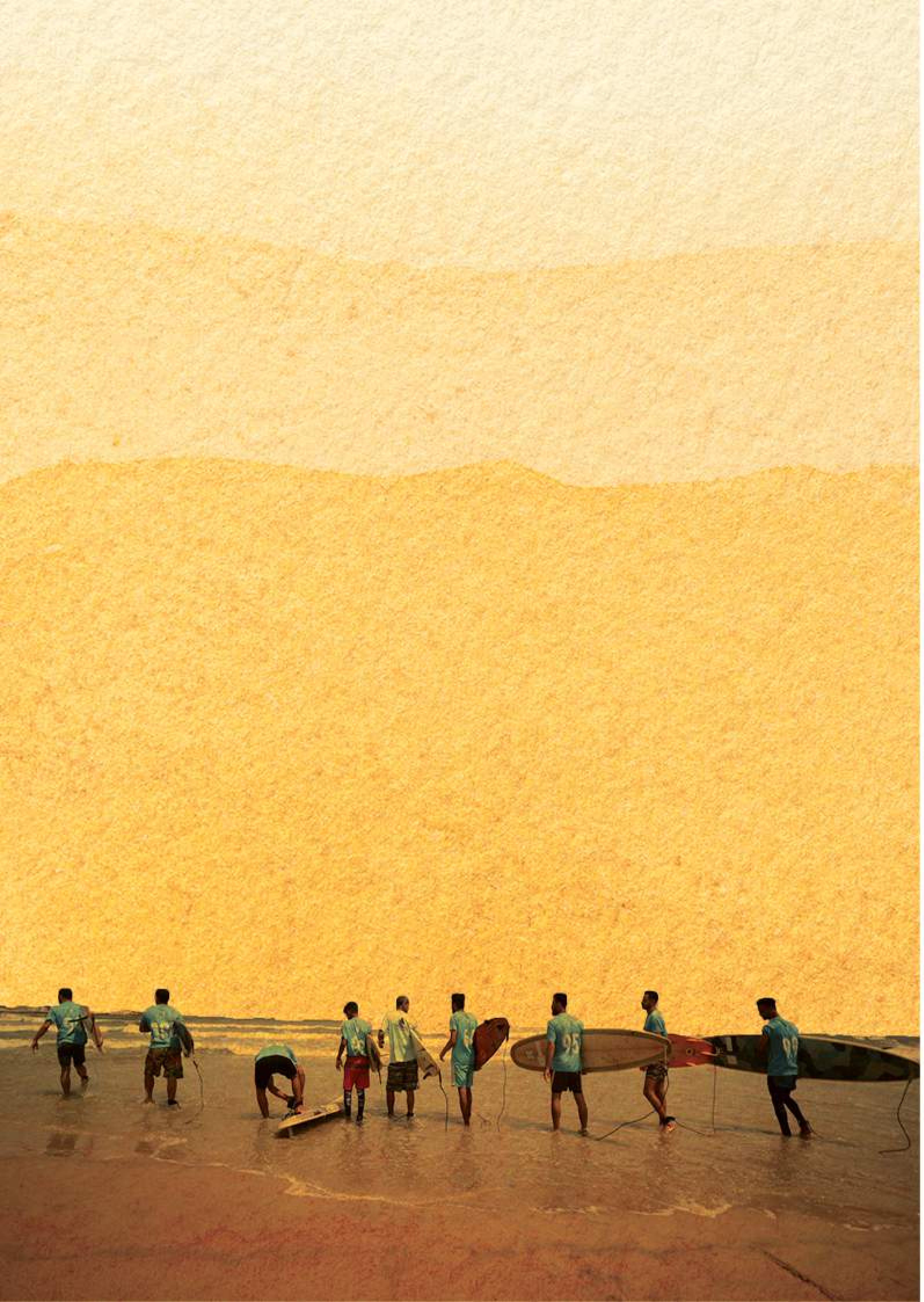
**2019**
- Launching the USSD service
- Launching the automated banking service
- Launching the WhatsApp banking channel
- Launching the PointCom campaign to promote electronic banking services
- Launching the electronic wallet "Mahfazati" application through PalPay

**2020**
- Upgrading corporate and retail banking services on internet banking and the Banke mobile application
- Bank of Palestine Group and the National Aluminum and Profiles Company (NAPCO) establish the Qudra Renewable Energy Solutions Company
- The establishment of Intersect Innovation Hub
- Signing a $50 million loan agreement with the European Investment Bank (EIB) to support small and medium-sized enterprises
- Signing a $15 million loan agreement with the European Bank for Reconstruction and Development (EBRD) to support small and medium-sized enterprises and businesswomen

**2021**
- Completion of the Customer Segmentation Project
- FISEA, the AFD Group Investment Vehicle advised by Proparco, becomes a strategic partner and investor in Bank of Palestine

**2022**
- Investing in Mada Al-Arab Company to promote digital transformation in Palestine
- Launching the first Climate Risk Management Conference in the Financial Sector in partnership with the European Bank for Reconstruction and Development "EBRD"
- Signing "Sunref II" the green financing agreement between the bank and Proparco and the European Union to support energy efficiency and renewable energy projects
- Issuing the first sustainability report based on the Global Reporting Initiative Standards

**2023**
- Japan International Cooperation Agency (JICA) invest $30 million in BOP's Additional Tier 1 Capital, JICA's first of its kind investment in Palestine and the world
- BoP becomes the first bank in the Middle East to join CitiGroup's Sustainable Deposits Solution
- Completion of BoP's five-year strategic plan
- Signing a $30 million subordinated loan agreement with Arab Fund for Social and Economic Development in Kuwait to support of the Palestinian SMEs
- Signing Ariz Portfolio Guarantee Agreement with Proparco and the support of the EU to support the Palestinian SMEs



# A Tribute to Our Founders

## Mr. Hashim Atta Shawa
### Founder of Bank of Palestine

The late Hashim Atta Shawa managed to build a great economic edifice when he founded the Bank with an aim to support farmers and orchard owners in the Gaza Strip and encourage them to grow and expand their businesses. Shawa used the orange tree as a symbol to reflect the Bank's identity and that of Palestine. He devoted his life in service of his people and his homeland, and until his last days, worked persistently to develop and expand the Bank.

## Late Dr. Hani Hashim Shawa
### Former Chairman of Bank of Palestine

The late Hani Shawa continued along the path of building and developing Bank of Palestine by adopting an expansion strategy, staying abreast with technological advancements and elevating the level of business practices and professional performance. His footprints and legacy of wise and sound management live on until today, reflected in the Bank's will to best serve its customers, shareholders and stakeholders.

# Our Vision

We aspire to be distinguished as the values-based, sustainable, modernized financial and banking institution on both the local and international levels.

# Our Mission

Bank of Palestine undertakes a mission rooted in a value system dating back to 1960, encompassing the best sustainable global practices and modern digital banking, to impact economic and social development in Palestine, through innovative banking while preserving shareholders' rights and providing value to all stakeholders in a national partnership, with connections extending to the region and the world within a shared responsibility approach.

# Our Values

Honor

Leadership

Resilience

Reliability

Sustainability

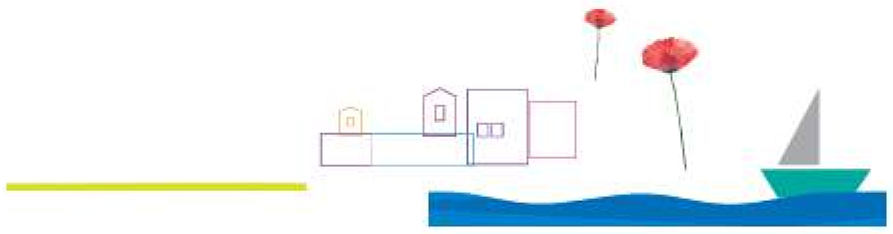




Key Financial Highlights

## Change in Key Performance Indicators (KPIs) during the last five years

| USD | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Gross Income Before Provisions** | 229,892,683 | 222,247,443 | 262,534,310 | 299,176,819 | 327,803,812 |
| **Gross Income After Provisions** | 199,435,810 | 182,789,657 | 237,920,164 | 271,078,059 | 192,091,644 |
| **Profit Before Tax** | 51,795,049 | 40,160,368 | 84,604,853 | 107,337,833 | 17,936,254 |
| **Net Profit** | 38,936,722 | 22,412,148 | 56,254,327 | 66,646,637 | 16,490,514 |
| **Total Assets** | 5,264,944,640 | 5,809,809,988 | 6,508,221,806 | 6,487,960,857 | 7,126,060,748 |
| **Customer Deposits** | 4,115,584,018 | 4,834,024,254 | 5,305,139,602 | 5,266,723,842 | 5,807,727,294 |
| **Credit Facilities** | 2,983,385,227 | 3,266,748,588 | 3,453,207,160 | 3,572,054,865 | 3,839,008,227 |
| **Shareholders` Equity** | 430,664,193 | 433,520,671 | 496,099,429 | 545,922,621 | 560,360,382 |
| **Paid Up Capital** | 204,000,000 | 208,080,000 | 217,433,527 | 223,958,577 | 230,677,334 |
| **Net Interest and Commission Revenue** | 203,104,797 | 197,457,949 | 223,598,064 | 256,282,832 | 290,004,515 |
| **Number of Employees** | 1,731 | 1,749 | 1,745 | 1,799 | 1,790 |
| **Number of Customers** (All customers) | 617,966 | 670,956 | 732,462 | 843,657 | 913,307 |
| **Number of Branches** (Operating in Palestine) | 73 | 74 | 73 | 73 | 72 |
| **Market Share – Deposits** | 30.33 % | 31.70 % | 31.72 % | 31.78 % | 33.02% |
| **Market Share – Credit Facilities** | 34.46 % | 34.11 % | 33.92 % | 34.21 % | 33.86% |



**Chairman's Statements**

"Despite our great pain, we have been managing this crisis with wisdom and flexibility, maintaining the Bank's potency and resilience to continue operating. We look ahead with optimism to grow regionally in the coming years."

**Hashim Shawa**
**Chairman, Bank of Palestine Group**

## Forging Ahead with Resilience, Hope and Ambition

### Ladies and Gentlemen and esteemed Shareholders of Bank of Palestine,

I am honored to present to you the Group's annual report, detailing the achievements of 2023, a year marked by significant challenges due to the grave events in Palestine, particularly, the devastating war on our beloved Gaza, which erupted during the last quarter of 2023 and continues to this day.

Despite the immense pain inflicted upon us all, this Bank which was established in the Gaza Strip in 1960 and having grown and expanded across all Palestinian Territories—has faced this war and its devastating effects with resilience implementing flexible policy to ensure business continuity, utilizing crisis management tools, that meet our customers' needs under the harshest conditions, safeguarding the Bank's operations and enabling it to stand steadfast. We have continued to provide our services in the Gaza Strip while strengthening our operations in the West Bank.

Our employees and their families in the Gaza Strip have been our priority since the eruption of the war. We have focused on their safety and well-being by providing them with the financial resources necessary to face the repercussions of the war while ensuring access to shelters. We provided our staff with urgent humanitarian interventions, providing hot meals, food parcels, and other critical relief aid to help them survive this unprecedented calamity.

Employees who were able to relocate to Egypt were provided with laptops, a communication network, and access to the General Management Headquarters in Ramallah to enable them to work remotely and support the Bank's operations. Motivated by our values, ethical, humanitarian and professional obligations, we remain committed to fulfilling our responsibilities towards our employees in Gaza.

As far our commitment to our customers in Gaza; we have consistently replenished the ATMs in the Gaza Strip despite the risks imposed by the onslaught in the North and South. All branches were closed during the war and then reopened during the first truce. Banking services were provided as circumstances permitted in Deir Al Balah and Rafah, enabling citizens to complete their financial transactions and supporting international relief organizations in their efforts to provide cash and in-kind assistance programs despite the difficult conditions on the ground.





The Bank has navigated this painful crisis with prudence and flexibility, activating its crisis management plans and ensuring business continuity. This plan allowed the Bank to continue providing its services in the West Bank branches and maintain the uninterrupted provision of services efficiently and effectively to our people in the Gaza Strip.
We practiced vigilance in applying our risk mitigation plan by conducting regular stress tests to ensure our ability to withstand the risks resulting from the war's repercussions, whether in the Gaza Strip or the West Bank. By considering all scenarios, the Bank managed to take the necessary precautions to ensure financial resilience and maintain liquidity. The results of these tests were positive, confirming the Bank's capability to withstand the shocks from the war.

In our efforts to achieve sustainable development, Bank of Palestine intensified its relations with international financial development institutions and mobilized funding to continue supporting small and medium-sized enterprises in the West Bank and the Gaza Strip, provided necessary financing to ensure the sustainability of the small medium enterprises which represent a crucial lifeline for the Palestinian economy. As such, we signed several agreements to contribute to this goal, including a USD 30 million subordinated loan agreement at the end of 2023 with the Arab Fund for Economic and Social Development in Kuwait to support small and medium-sized enterprises.

At the beginning of 2023, the Bank signed an investment agreement with Japan International Cooperation Agency (JICA), an investment instrument which is the first of its kind in Palestine. The agreement signed between the two parties stipulates that JICA invested an amount of USD 30 million in BOP's Additional Tier 1 Capital, with the aim of enhancing the bank's ability to lending small and medium-sized enterprises (SMEs), and enabling it to confront risks, absorb shocks, and overcome future challenges. The investment also aimed to enhance the financial solvency of the Bank's capital. Furthermore, the bank renewed the ARIZ agreement with the French Development Agency, represented by Proparco, with the support of the European Union, with the aim of supporting small and medium-sized enterprises.

The year 2024 will see more such partnerships and investments, strengthening the Bank's capital adequacy and financial resilience, enabling us to contribute effectively to economic recovery and reconstruction efforts in the Gaza Strip, as well as the economy in the West Bank.

Within one week of the war's outbreak at the end of last year, we secured relief for our people in the Gaza Strip with full commitment and responsibility to meet their basic needs for clothing, food, shelter, and medicine. We also provided psychological and financial support for Gaza patients receiving treatment in Jerusalem, the West Bank, and Jordan. Considering the humanitarian catastrophe in the Gaza Strip, we will continue to offer relief and humanitarian assistance to the people even after the war, praying that this tragedy will come to an end sooner than later.

Our shareholders have shown high confidence in the Bank's management and the measures taken to confront the crisis. They have appreciated the Bank's relief efforts and supported the allocation of significant provisions to mitigate the risk of loan defaults due to the war.

### Forging Ahead with Resilience, Hope and Ambition.

Emboldened by our Board of Directors reference the bank's future direction, the executive Management is proceeding with the implementation of the strategic plan for the coming years, particularly focusing on regional expansion. This strategy is crucial for business development and risk diversification.

Therefore, regional expansion efforts will be our main focus in the coming period, fulfilling our shareholders' aspirations to expand and grow regionally, in addition to implementing development plans within Palestine.

In conclusion, we believe that the war will come to an end. From the onset, we have forged ahead with resilience, hope and ambition, with full faith that we will rebuild Gaza to become a better place than it was before. Our financial Group is committed to contributing to the revitalization and rebuilding joining national efforts that will reclaim Gaza's splendor and restore its dignity.

**May God safeguard Palestine and its people.**

**Hashim Shawa**
Chairman, Bank of Palestine Group

## CEO's Statement

**"We will forge ahead with resilience, hope and ambition, and we will continue to strengthen our institution and assume our responsibilities to build a more stable and prosperous future"**

# Mahmoud Shawa

**CEO, Bank of Palestine**

## Dear Ladies and Gentlemen,

On behalf of the Executive Management and all the employees at Bank of Palestine, I am proud to present to you the management discussion and performance report for the Bank and the Group's subsidiaries companies during 2023. This report comes despite the unprecedented circumstances facing Palestine, especially the ongoing brutal war in the Gaza Strip.

The last quarter of 2023 brought significant challenges due to the war, impacting all aspects of life in Gaza. This war also affected the Bank and the Group's operations in both the Gaza Strip and the West Bank. Many private sector companies in Gaza lost about 30% of their market share due to the massive destruction of infrastructure and the grave humanitarian crisis. Additionally, large economic sectors in the West Bank were affected by the war's repercussions.

In these difficult economic conditions, the Bank responded to the decisions and instructions of the Palestine Monetary Authority by deferring installments for borrowers in Gaza. For borrowers in the West Bank, we rescheduled loans and provided support and advice to help them confront economic challenges and ensure the continuation of their operations.

In response to the crisis in Gaza, the Bank's strategy included activating emergency and contingency plans to ensure business continuity. We provided support to employees who relocated to Cairo to work remotely as a support team. These measures strengthened the Bank's ability to plan for the crisis and maintain the financial and operational capacity of its diverse operations.

Despite the challenging circumstances in Palestine, particularly in Gaza, the Bank's performance in 2023 recorded several achievements, reflecting notable growth in financial indicators. Customer deposits grew by 10.3%, net direct credit facilities increased by 7.5%, and operating income reached USD 327.9 million, a growth rate of 10.6%. To protect against financial distress and the war's repercussions, the Bank allocated high credit impairment provisions amounting to USD 135 million, compared to USD 28.4 million in 2022. This resulted in a -75% drop in net profit from USD 66.6 million in 2022 to USD 16.5 million in 2023.

We adopted precautionary measures as a prudent approach to mitigate risks and enhance the Bank's ability to face potential shocks. Regarding solvency and capital adequacy, the Bank applied stress tests and maintained a liquidity coverage ratio exceeding 767%, strengthening its financial resilience. The Bank also attracted interest from international and regional financial development institutions to increase capital adequacy for SME lending programs.



Overview - Corporate Governance - Strategic Review - Operational Review - Bank of Palestine Group - Financial Statements

At the Group level, the Arab Islamic Bank maintained its operations by adopting precautionary strategies, achieving a net profit of USD 5.5 million. PalPay's operations in Gaza grew, particularly its services to international relief organizations, facilitating transactions with merchants and transferring financial and in-kind aid. The company's high-quality e-payment solutions contributed to transaction growth in 2023, reaching ILS 3 billion (USD 831 million). Additionally, Al Wasata Securities played a pivotal role in trading transactions during the war, despite the reduced trading volume in the local financial market.

It is important to note that prior to the current crisis, the Bank's financial indicators were solid. Before October, the Bank achieved its highest net profit since its establishment, significantly strengthening its ability to deal with the war's repercussions and maintain strong capital and liquidity ratios.

During the war in the last months of 2023, we have overcome the most difficult challenges thanks to the concerted efforts of the Board of Directors, Executive Management, and employees, as well as the prudent policies deeply rooted in the Bank and the high values of our staff, especially their dedication and loyalty to our institution and our people.

In the coming period, we intend to maintain high efficiency and readiness to handle emergencies. Our work on the five-year plan which started in 2023, is complete, and we will focus on implementing digitization and operational enhancement plans to attract both Palestinian residents and diaspora. We are also concluding our research on regional expansion in preparation for the recovery and reconstruction phase.

Given these plans, we look forward to the future with a cautious and realistic outlook. We pledge our continued responsibilities and duties to our shareholders, investors, customers, employees, and citizens. We are committed to harnessing our energies and capabilities for the benefit of all our customers and partners. We will continue to implement a strategy of growth, prudence, and repositioning to adapt to new developments or risks while maintaining flexibility to seize opportunities for growth and prosperity.

We are confident that we will overcome the challenges, despite the war's impact, relying on our dedicated staff who exemplify giving and dedication in difficult circumstances. With them, we will forge ahead with resilience, hope and ambition, continuing to assume our responsibilities and enhance our institution until we build a more stable and prosperous future, one worthy of Palestine, rekindling hope in the hearts of the Children of Gaza.

| Net Profits | Operating Cost to Income | Capital Adequacy Ratio |
|---|---|---|
| $16.5 million | 53.13% | 15.38% |

| Liquidity Coverage Ratio | Net Loans to Deposits Ratio | Non-performing Loans Ratio |
|---|---|---|
| 767% | 66.10% | 5.21% |

**Mahmoud Shawa**

Chief Executive Officer

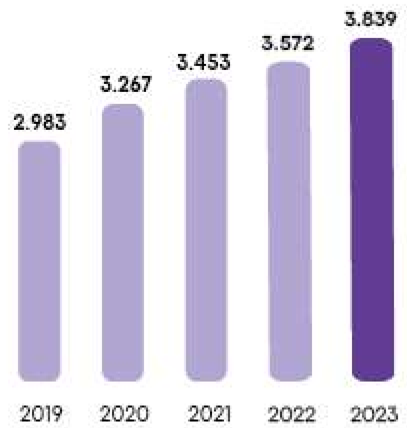
M EL-Shawa

## Financial Performance Analysis 2023

### Credit Facilities

**$3.839 Bn**

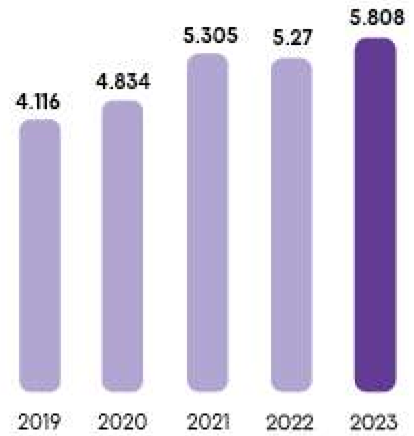
**Annual Growth | 7.5%**




### Customer Deposits

**$5.808 Bn**

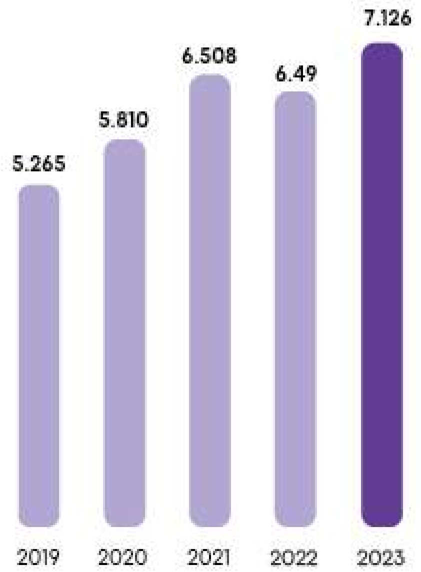
**Annual Growth | 10.3%**




### Total Assets

**$7.126 Bn**

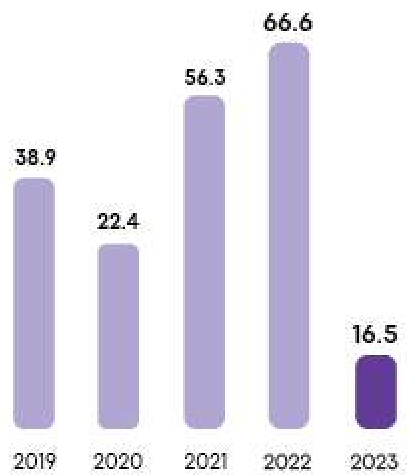
**Annual Growth | 1.73%**




### Net Profit

**$16.5 Mn**

**Annual Growth | -75.3%**



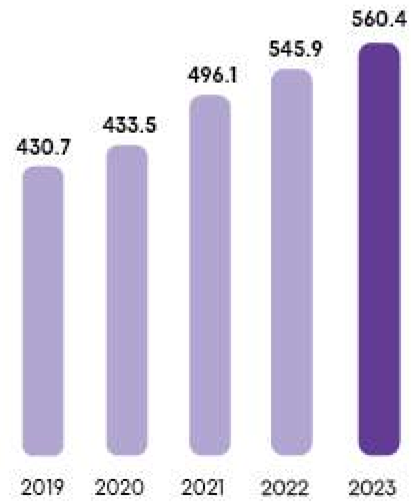


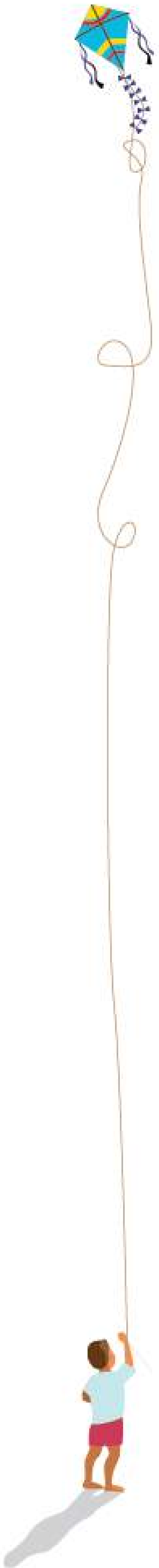



### Shareholders` Equity

**$560.4 Mn**

**Annual Growth | 2.6%**



**33%**
Market Share – Deposits

**34%**
Market Share– Credit Facilities

**9%**
Market Capitalization

# Highlights of 2023

January February March April May June July August September October November December

- Renewing the Ariz MENA agreement with PROPARCO and the European Union to support small and medium-sized enterprise in Palestine.
- Bank of Palestine received the Global Finance award for best bank in Palestine in the field of international trade.


- Signing an agreement with the Japan International Cooperation Agency (JICA) to invest $30 million in BOP's Additional Tier 1 Capital, JICA's first of its kind investment in Palestine and the world.

- Stemming from its social responsibility efforts, Bank of Palestine provided funding for Birzeit University to develop projects for persons with disabilities.

- Bank of Palestine believes that investment in education is the first step for building a sustainable economy in Palestine. Accordingly, the Bank contributed to establishing the Center for Higher Education and Scientific Research at Palestine Ahliya University in Bethlehem city.

- Opening the largest solar energy power plant in Deir Abu Mashal village at a capacity of 8.25 megawatts with Qudra Renewable Energy Solutions Company.


- BoP is the first bank in the Middle East to join CitiGroup's Sustainable Deposits Solution.
- Launching the SoftPOS service, making it easy for merchants to complete their sales using their mobiles.
- In line with the Bank's environmentally friendly practices, "Bank of Palestine Forest" was inaugurated in cooperation with the Ministry of Agriculture in Nablus Governorate.



- Launching the Apple Pay service, allowing customers to add their cards to the Wallet and make payments without the need to carry the cards.
- Through Intersect Innovation Hub, the Bank was able to join forces and harness resources with Technopark to support Palestine's innovation ecosystem.


- The Bank launched the Bank-e Pay wireless service for making payments via Android-operated mobile phones.
- The Bank renewed its commitment to the UN Global Compact.

- Graduation of the fifth and sixth cohorts and launch of the seventh edition of the Felestineya Mini-MBA Program.
- The Bank launched a campaign to enhance energy efficiency in partnership with the Energy Ministry and PROPARCO.
- Bank of Palestine Group officially joined the United Nations Environment Programme Finance Initiative (UNEP-FI) and the UN Principles for Responsible Banking.
- The Bank participated in Sibos 2023 in Toronto, Canada.


- The Bank provided support for the equipment of a skating rink in Inash Al Usra Association in Al Bireh.
- The Bank participated in the "Women of the Future" summit, stemming from its strong belief in the importance of women's effective role in society.
- With the outbreak of the war in Gaza, the Bank provided a donation of $500,000 to supply food commodities for displaced persons at UNRWA schools in Gaza, in cooperation with the WFP.

- In cooperation with international organizations, the Bank established a relief bridge to support the Gaza Strip by providing relief aid to displaced persons in shelters and Gaza patients in hospitals in the West Bank and Jerusalem.
- The Bank implemented several credit and liquidity stress test scenarios which it successfully passed, reinforcing its robustness and resilience in the face of the challenges and difficult circumstances witnessed in Palestine.

- Since the outbreak of the war, the Bank focused on providing urgent assistance to the residents of the Gaza Strip through the relief bridge, including hot meals to the displaced people in shelters. The value of assistance was estimated at $1 million by the end of 2023.
- The Bank continued to practice its banking operations under the difficult circumstances by providing digital financial services, as part of its responsibility to fully maintain the lifeline in the Gaza Strip and preserve the Palestinian economy for the benefit of its customers wherever they are.

Awards and Memberships

# 2023 Awards

**The EBRD Award for the Trade Facilitation Programme.**

**The Global Finance Award for Best Bank in Palestine during 2023.**

**The EMEA Finance Award for Best Bank in Palestine.**

**The Global Finance Award for Best Bank in Palestine in the field of International Trade.**

**The Banker Award for Bank of the Year.**

# Memberships

- Member in the Global Alliance for Banking on Values – GABV
  First bank in the Arab World and the Middle East to obtain such membership
- Member in the Middle East Investor Relations Association – MEIRA
- Member in the World Economic Forum - WEF
- Member in the Global Banking Alliance for Women
- Member in the United National Global Compact
- Member in the Palestinian Council for Green Buildings
- Member in the Global Impact Investing Network
- Member in the United Nations Environment Programme Finance Initiative (UNEP-FI)





Our Branches and Offices

# 72 Branches & Offices

General Management
834 Employees

Branches & Offices
956 Employees

## Southern West Bank

### Hebron Governorate

Hebron Branch
Hebron University Office
Saeer Office
Bab Al Zawiya Office
Al Salam Office
Tarqumia Branch
Dura Office
Yatta Office
Al Thahiriya Office

### Bethlehem Governorate

Bethlehem Branch
Beit Jala Office
Beit Sahour Office

## Gaza Strip

### Northern Gaza Governorate

Jabalia Branch
Beit Lahia Office
Beit Hanun Office

### Gaza Governorate

Al Rimal Branch
Al Sarayah Office
Tal Al Hawa Office
Main Branch
Omar Al Mukhtar Office
Al Nasr Branch

### Central Governorates

Deir Al Balah Branch
Al Nusseirat Branch
Al Zahra City Office

### Northern Governorates

Khan Yunis Branch
Bani Suhaila Office
Rafah Branch
Western Rafah Office

## Central West Bank

### Ramallah and Al Bireh Governorate

Ramallah Branch
Tormosaya Office
Nalin Office
Deir Dibwan Office
Al Manara Office
Al Irsal Branch
Birzeit Office
Silwad Office
Al Masyun Branch
Bedo Office
Beitunya Office
Al Bireh Branch
Al Tireh Office
Lacasa Mall Office
Al Qasaba Branch

### Jericho and the Valleys Governorate

Jericho Branch
Al Istiraha Office – Jericho

### Salfit Governorate

Salfit Branch
Bidya Office

### Jerusalem District

Al Ram Branch
Abu Dees Branch
Al Quds University (Abu Dis) Office
Dahyet Al Bareed Branch

## Northern West Bank

### Jenin Governorate

Jenin Branch
Maythalun Office
Yaabad Office
Al Yamun Office
Arab American University Office
Qabatiya Branch

### Tubas Governorate

Tubas Branch

### Nablus Governorate

Nablus Branch
Al Hisbah Office
Huwara Office
Tulkarm Street Office
Northern Assira Office
Rafeedya Branch

### Tulkarm Governorate

Tulkarm Branch
Khadoury Office
Downtown Branch – Tulkarm

### Qalqiliyah Governorate

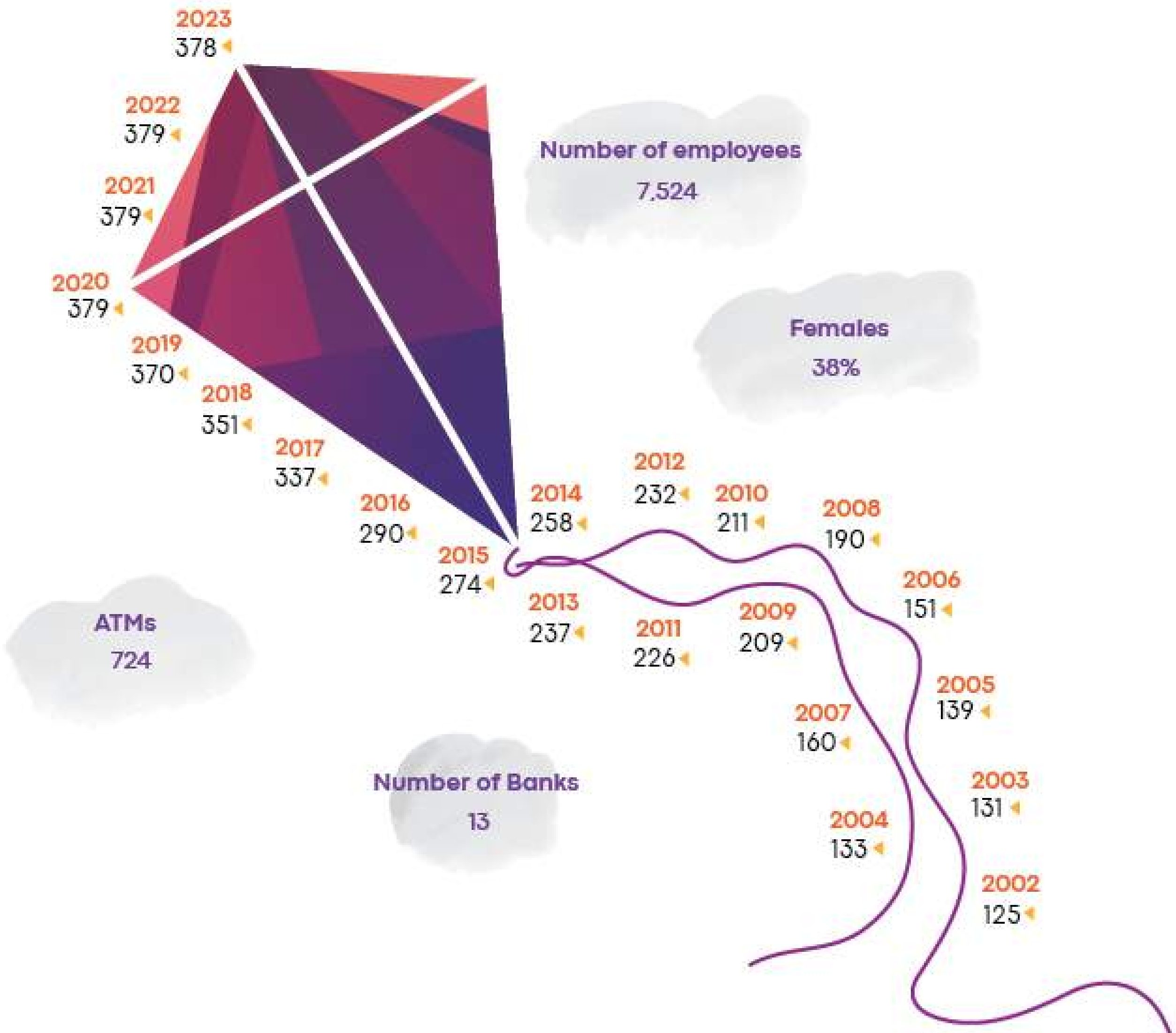
Qalqiliyah Branch
Azun Office

- **Representative Offices**
  **Dubai – DIFC, Park Towers (A)**
  **Chile – Las Condes, Santiago**

- **Mobile Branch: Bank-e Rahhal**

**Banking Sector Overview**

# Number of branches operating in Palestine




## The Financial Sector in Palestine

The Palestinian banking sector plays a pivotal role in economic development through the financial and banking services it provides to individuals and companies, in addition to providing the means and employing all capabilities that support and push the economic wheel forward. The sector provides financing to economic sectors, including companies and SMEs, promotes financial inclusion and offers digital technology solutions. Similarly, Bank of Palestine provides financing and





innovative digital banking services, including the necessary support for startups through Intersect Innovation Hub and the Ibtikar Fund.

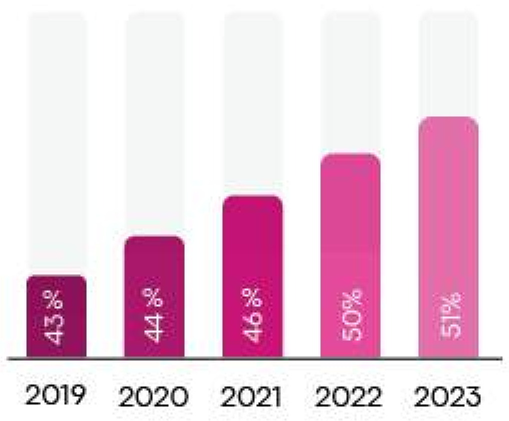
During 2023, the Palestinian economy was expected to achieve 3% growth. However, the war on the Gaza Strip had a major impact on the economic wheel and the accompanying repercussions on the West Bank economy, causing an approximate 6% decline in Palestine's GDP in 2023, with an estimated value of around USD 1 billion.

The value added of all economic activities in Palestine dropped during the fourth quarter of 2023, compared to the same quarter in 2022: construction dropped by 39% (highest decline recorded); agriculture dropped by 38%; services dropped by 33%; and industry activity dropped by 28%.

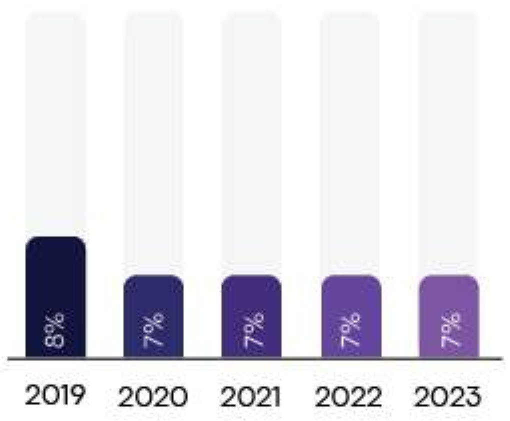
The number of banks operating in Palestine has reached 13, including 7 local banks and 6 foreign banks. Despite the difficult circumstances, Bank of Palestine continued to provide efficient banking services, especially in the Gaza Strip, by harnessing digital solutions to meet the needs of the population to access banking services. The Bank has the flexibility and resilience to confront challenges, in addition to financial stability that allows it to provide sustainable banking services to its customers and all segments of society, even those outside the banking system, through PalPay (one of its subsidiaries), which operated at full capacity, at the level of POS and other services, to meet the needs of all segments of society.

## Financial Inclusion Indicators in Palestine

Percentage of adults with at least one bank account




Percentage of adults with at least one bank loan




Number of **female**-owned businesses financed by credit facility

**7,831 project**

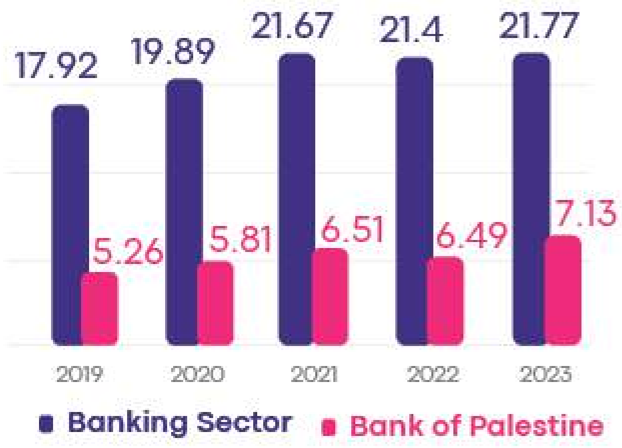
These indicators reveal the opportunities for growth and expansion in targeting segments that are outside the scope of banking services, which is what the Bank seeks to accomplish through its growth and expansion strategy at the local and regional levels, to fulfill the aspirations of all its shareholders and stakeholders.





## Growth Indicators in The Banking Sector

**Total Assets** (USD Bn)




**Total Deposits** (USD Bn)


**Credit Facilities** (USD Bn)


### Percentage of growth in assets, deposits and facilities (year by year)

| Assets | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Banking Sector in Palestine | 11.14% | 10.96% | 8.99% | -1.24% | 1.69% |
| Bank of Palestine | 13.05% | 10.35% | 12.02% | -0.31% | 9.84% |
| **Customer Deposits** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Banking Sector in Palestine | 10.56% | 12.35% | 9.70% | -0.93% | 6.14% |
| Bank of Palestine | 10.18% | 17.46% | 9.75% | -0.72% | 10.27% |
| **Credit Facilities** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Banking Sector in Palestine | 7.15% | 11.55% | 6.63% | 2.77% | 9.12% |
| Bank of Palestine | 11.91% | 10.41% | 6.03% | 3.65% | 9.09% |

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# Corporate Governance

## Board of Directors and Board Committees

### Mr. Hashim Shawa

**Chairman**

Bank of Palestine Group

Experience

Chairman of Bank of Palestine Financial Group.
Chairman of Palpay Electronic Payments
Chairman of Alwasata Securities Company
Chairman of Ibtikar Fund
2007 - 2017, General Manager of Bank of Palestine
2005 - 2007, Associate Director Middle East Gulf Region, HSBC Private Bank - Switzerland
2002 – 2005, Vice President, Middle East Region, Citigroup Private Bank, Geneva -Switzerland
1997 – 2002, Assistant Vice President Operations & Technology - Citigroup, London, UK

Bachelor of Engineering "University College London" 1997

Date of Birth: 25/01/1976
Member since 2007

Memberships

Member of the Institute of International Finance (IIF) Emerging Markets Advisory Council (EMAC)
WEF MENA Regional Action Group Member
World Bank Advisory Council on Gender and Development
Founding Member at Intersect Hub for Start-Ups.
Board Member of "Pharmacare Company"
Board Member of Arab Palestinian Investment Company (APIC) Palestine

### Mr. Abdullah Qais Al-Ghanim

**Vice Chairman**

Representative of Al Muhalab Kuwaiti Real Estate Company

Experience

2016 - Consultant
2015- 2016 – Assistant General Manager – Gulf Bank - Kuwait
2012 – 2015 - Director - ASIYA Investment Co - Kuwait
2011 - 2012 – GCC Business Development - International Finance Corporation - UAE
2010 - 2011 – Executive Manager- Boubyan Bank - Kuwait
2006 – 2010 – Associate Director - HSBC Private Bank - Kuwait
2001 – 2006 – Managing Director -Al-Muhalab Kuwaiti Real Estate – Kuwait
MBA - The Thunderbird School of Global Management - 2005
B.S.- Boston University – 1996

Date of Birth: 08/02/1976
Member since 2014

Memberships

Board Member of Al-Wasata Securities Company

### Mrs. Lana Abu Hijleh

**Board Member**

Experience

2003 - Present: Country Director of Global Communities (Formerly known as CHF International – Palestine)
1986 – 2003: Assistant Resident Representative of the United Nations Development Program/Program of Assistance to the Palestinian People (UNDP/PAPP)

B.SC- Civil Engineering, University of Iowa, Iowa, USA – 1985
MBA- leadership and Sustainability, University of Cumbria – United Kingdom

Date of Birth: 03/07/1963
Member since 2014

Representative of Minority Shareholders

Memberships

Member of the Board of Directors - Palestine Investment Fund
Chairwoman of the Board of Directors- Amaar Group and Massader
Member of the Board of Directors of Palestine Power Generation Company
Member: Intersect Innovation Hub
Member - Palestinian Businesswomen Forum
Member: Business and Professional Women Network-Palestine
Founder and Chairwoman- Shiam-Youth
Make the Future Organization
Member - Young Presidents' Organization (YPO/WPO)
Fellow of the Aspen Institute Middle East and Global Leadership Network





### Mr. Tarek Al Aggad

**Board Member**

Representative of the Arab Palestinian Investment Company – APIC

Experience

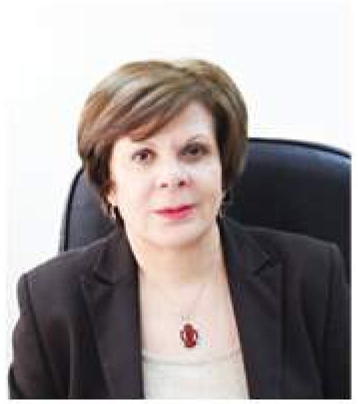
Chairman & CEO - Arab Palestinian Investment Company (APIC) Palestine
Executive Director - Aggad Investment Company (AICO) Saudi Arabia

B.A – Economics - Harvard University – 1992

Date of Birth: 24/01/1971
Member since 2014

Memberships

Chairman - Siniora Food Industries Jordan/ Palestine
Chairman - Unipal General Trading Company - Palestine
Chairman – Gulf Taleed Commercial services Company – Saudi Arabia
Chairman - Palestine Automobile Company - Palestine
Chairman - Medical Supplies and Services (MSS) - Palestine
Member of the Board of Directors - Palestine Electric Company (PEC)- Palestine
Member of the Board of Directors - Palestine Power Generation Company (PPGC) - Palestine
Member of the Board of Trustees and Board of Directors - The King Hussein Cancer Foundation - Jordan
Mr. Aggad sits on the Board of Directors of several prominent investments, manufacturing, distribution and services companies in Palestine, Jordan and Saudi Arabia.



### Dr. Tafeeda Jarbawi

**Board Member**

Experience

2011-to date Director General of Taawon (Welfare Association)
2010-2011 Deputy Director General of Taawon (Welfare Association)
2008-2010 Directors of Operations-Taawon (Welfare Association)
2006-2008 Director of Research and Planning - Taawon (Welfare Association)
1995-2006 Associate Prof. Director of Ramallah Women's' College comprised of: Teacher Education as well as Vocational and Technical Training - UNRWA
1995 Visiting Research Professor for - University of Bonn/ Germany
1987 Visiting Research Professor- University of Minnesota /USA
1981-1994 Assistant Professor of chemistry/ Head of Chemistry Department -Birzeit University
Author of more than 40 publications in chemistry, education, sustainability, and women's affairs

PhD in Analytical Chemistry, minor in Biochemistry. University of Cincinnati

Date of Birth 08/03/1955
Member since 2019

Memberships

Founder "Teach for Palestine" organization.
Member of the Board of Trustees of Al-Quds University
Member of the Board of Trustees of Al- Taawon organization.
Member of the advisory board of Bard-Al Quds University
Member of the advisory board of Global ambassadors of Sustainability
Member of the Advisory Board of the Palestinian Anti-Corruption Commission
Advisory Member to MEPLI Professional Education Program, Harvard Graduate School of Education
Member of the Gov. Education Reform Committee
Higher Council for Vocational and Technical Education
Accreditation and Quality Assurance for Higher Education
UNISCO-World Commission of the Ethics of Scientific Knowledge and Technology (COMEST)
Bioethics Network on Women's Issues in the Arab Region

### Mrs. Maha Awad

**Board Member**

Experience

1988 - Present: General Manager – Abu Shousheh contracting Co.
1997 – 2008: Chairwoman & General Manager – Abu Shousheh Trading Co.
2008 - present: Board Member Autozone Trading Co.
Board Member: Izdehar Investing Co.
Chairwomen of the Palestinian Shippers Council
Chairwoman of the board of directors of Riwaq (the Palestinian association for the preservation of architectural heritage).
Honorary Consul of the State of Indonesia

B.SC- Economics – Birzeit University

Date of Birth: 27/04/1962
Member since 2018

Memberships

Member of Palestinian Business Women Forum
Member of the Board of Trustees - Al Quds University
Member of the Board - Medical Relief Association
Member of the Board - Council of Arab Business Women
Founding Partner in several Private Sector Companies

## Board of Directors and Board Committees

### Mr. Eric Shehadeh

**Board Member**

Experience

2024-present Founder of SH Capital Group – Advising family offices Dubai, UAE
2023-2023 Group Head of M&A at First Abu Dhabi Bank Abu Dhabi, UAE
2017-2022 President & CEO of My Money Group Paris, France
2012-2017 Chief Executive Officer GE Money Bank France & DOMs Paris, France
2009-2012 Chief Financial Officer Mubadala GE Capital Abu Dhabi, UAE
2008-2009 Managing Director & CFO - M&A, GE Capital Middle East Dubai, UAE
2005-2008 Chief Financial Officer, GE Money Thailand, Bangkok, Thailand
2003-2005 Chief Financial officer, GE Money New Zealand, Auckland, New Zealand
2002-2003 Finance Mgr. & Assistant Controller GE Healthcare Europe Paris, France
2000-2002 Finance Six Sigma Black Belt GE Healthcare Europe Paris, France
1998 -2000 Financial Management Program (FMP) – GE Healthcare Europe

2008 Harvard Business School Boston, USA Executive Education Program Consumer Banking & Finance for Senior Executives
1995 - 1998 Ecole Supérieure de Commerce de Paris (ESCP Business School) Paris, France
Masters in finance and management Control. Classes
1991 – 1995 Point Park University Pittsburgh, USA
BA in Political Science

Date of Birth 29/5/1971
Member since 2020

Memberships

Board Member of Association Française des Sociétés Financières
Chairman of the Board of MMB Société de Credit Foncier
Chairman of the board of Banque des Caraibes
Current President and CEO of My Money Group, Paris, France

### Mr. Tewfic Habesch

**Board Member**

Experience

Member of the board, Al-Mashreq Insurance Co.
Member of the board, Pharmacare
Vice Chairman, The Arab Chamber of Commerce & Industry – Jerusalem until February 2023
Member of the board, The French Arab Chamber of Commerce – Paris until February 2023
Habesch The Commercial Press Co. Ltd, Jerusalem established 1920, General Manager, September 2000 – Present.
Vice Chairman, Aqariya Commercial & Investment Company-2022
The Palestinian Securities Co. Ltd, Ramallah, Founder and Managing Director, September 1998 – August 2000
Union Bank for Savings and Investment, Ramallah, Regional Manager Palestine, September 1997 – September 1998
Arab Development and Credit Co., Jerusalem, General Manager, 1992 – 1996
Arab Bank Limited, New York Branch, N.Y.,Credit Officer, March 1988 – August 1990
New York University, Graduate School of Business Administration. New York - M.B.A. Finance/ International Business, June 1987
The American University, Washington, D.C. , BS/ BA Finance and Computers Systems applications in management, May 1984
Date of birth: 06/07/ 1962
Member since 2022

Memberships

National Insurance Co. founding committee member
Ex-chair of the Internal Audit committee of the National Insurance Co.
Ex-member of the Advisory Committee of the Latin Patriarchate of Jerusalem
Ex-member of the board of directors of the Jerusalem International YMCA
Ex-member of the board of directors of the 3 Arches Hotel – Jerusalem

### Mrs. Lama Kanaan

**Board member**

Experience

Executive Director, Senior Relationship Manager, April 2017 – April 2019- Julius Bäer MEA - Dubai, Key Client Team - Private Banking.
Director, Senior Relationship Manager, November 2011 – March 2017 - Credit Suisse - Private Banking
First Vice President, November 2010 – November 2011 - BSI Bank
Executive Director: Wealth Management, November 2004 – November 2010 - Capivest Equitable Alliance
Relationship Manager: Investment & Treasury, April 1999 – October 2004 - Saudi Hollandi Bank
Investment Marketing Manager: Ladies Banking Davison, August 1998 – April 1999 - The National Commercial Bank
Investment Marketing Officer: Private Banking Division, March 1996 – June 1998 - Al Bank Al Saudi Al Faransi
Relationship Officer: Private Banking Division, December 1994 – October 1995 - Arab National Bank

Diploma of Management 1987, S.S. College, UK
Diploma of Islamic Finance BIBF, Bahrain 2005-2007
Anti Money Laundering Training 2009, Capivest, Bahrain
High Net Worth Relationship Skills 2005 Euro Money London, UK
Anti Money Laundering Training 2005, BIBF, Bahrain
Banking ProductS, 2003 Saudi Hollandi Bank, Riyadh, Saudi Arabia
Intensive Course in FX, 2002, BIBF, Bahrain
Foreign Exchange Markets 1996, Al Bank Al Saudi Al Faransi, Riyadh, Saudi Arabia
Date of birth: 24/03/1969
Member since 2022

Memberships

Board Member at Hauberk Capital, under the ADGM Authority
Bahrain Businesswomen Society





### Mr. Adel Dajani

**Board member**

Experience

2004-2022 Maghreb Venture Partners/ Emergence Partners
Founder & Managing Director
Regional Investment Bank
Tripoli 2009-2014 Aman Bank Libya/ Banco Espirito Santo Group
Independent Member of the Board of Directors
Private Commercial Libyan Bank
Tunis 1995-2002 International Maghreb Merchant Bank (IMBank)
Founder & Managing Director (1995-2002)
Advisor to the Board of Directors (2000-2002)
London 1985-1994 London Court Ltd.
Founder & Managing Director
Member and Registered Representative of the Financial Services Authority (U.K.)
Hong Kong 1981-1985 Corporate Finance Division of Investment Banking Subsidiary of HSBC
Executive Vice President
London1979-1980 HSBC
International Officer
Credit training course and operational departmental experience
Barrister at Law, Inns of Court School of Law, Member of the UK Bar Association
Honours Degree Bachelor of Laws in International and Comparative Laws (LLB), London University (School of Oriental & African Studies
Degré de langue et de Civilisation Française & Premier Degré Pedagogique (Alliance Française), Université de Paris (Sorbonne)
9 O Levels, 3 A Levels, 1 AS Level Eton College, (UK)
Date of birth: 29/07/1955
Member since 2022

Memberships

London 2012 Founding Member of the Arab Bankers Association, UK

### Mrs. Linda Tarazi

**Board member**

Experience

Capital Bank of Jordan - Dubai, UAE, July 2022 - Present
Group Chief Transformation Officer
MASHREQ BANK – Dubai, UAE. Nov 2013 to 2022
Executive Vice President – Head of Digital
MASHREQ BANK – Dubai, UAE. Nov 2010 to Nov 2013
Senior Manager – Transformation Approach & Methodology / Sustainability
Vice President – Lean Practice / Business Excellence
MASHRE QBANK – Dubai, UAE. Nov 2006 to 2010
Vice President – Program Head of Outsourcing (AOM Program)
Vice President – Manager Operations Excellence
JUMEIRAH CAPITAL – Dubai, UAE Sept 2005 to Oct 2006
Financial Analyst
CITIGROUP – London, UK Sept 1998 to Jan 2005
Assistant Manager – GTS Consulting Group.
Masters of Mechanical Engineering, (1992-1996)
Imperial College of Science, Technology & Medicine – London, UK.
Date of birth: 05/01/1974
Member since 2022

## Attendance of Board Members - 2023

| Session date / Name | 29/01 | 05/03 | 05/04 | 14/05 | 08/06 | 27/08 | 19/10 | 23/11 | 17/12 | Attendance per member |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| Mr. Hashim Shawa | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mr. Abdullah Al Ghanim | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mr. Tarek Aggad | Present | Present | - | - | Present | - | Present | - | Present | 5 |
| Mrs. Lana Abu Hijleh | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mrs. Maha Awad | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Dr. Tafeeda Jarbawi | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mr. Eric Shehadeh | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mrs. Lama Kanaan | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mr. Adel Dajani | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mr. Tewfic Habesch | Present | Present | Present | Present | Present | Present | Present | Present | Present | 9 |
| Mrs. Linda Tarazi | Present | Present | Present | Present | - | Present | Present | - | Present | 7 |
| Total Attendance | 11 | 11 | 10 | 10 | 10 | 10 | 11 | 9 | 11 | |

## Board Members Remuneration for 2023 and 2022 in USD

| Member | Position | 2023 | 2022 |
|---|---|---|---|
| Mr. Hashim Shawa | Chairman | 39,385 | 100,112 |
| Mr. Abdullah Al-Ghanim | Vice Chairman | 39,385 | 100,112 |
| Dr. Tafeeda Jarbawi | Board Member | 39,385 | 100,112 |
| Mr. Eric Shehadeh | Board Member | 39,385 | 100,112 |
| Mrs. Lana Abu Hijleh | Board Member | 39,385 | 100,112 |
| Mrs. Maha Awad | Board Member | 39,385 | 100,112 |
| Mr. Tewfic Habesch | Board Member | 39,385 | 77,865 |
| Mr. Adel Dajani | Board Member | 39,385 | 77,865 |
| Mr. Tarek Aggad | Board Member | 21,882 | 66,742 |
| Mrs. Lama Kanaan | Board Member | 39,385 | 66,742 |
| Mrs. Linda Tarazi | Board Member | 30,633 | 55,620 |
| Mr. Maher Farah | Former Board Member | 0 | 22,247 |
| Mr. Hani Nigim | Former Board Member | 0 | 22,247 |
| Total | | 406,980 | 990,000 |







## The Board of directors

The Board shall take on full responsibility of the Bank's performance. Its members are elected by shareholders to oversee and guide management with the ultimate goal of increasing long-term shareholder value, taking the interest of other stakeholders into account. Following are the duties and activities assumed by the Board:

- Review, approve and monitor BOP's long-term strategic objectives and business plans of the Executive Management.
- Monitor the overall performance of the Bank and progress towards achieving its strategic objectives.
- Asses the major risks confronted by the Executive Management and the steps taken to monitor and control them.
- Set the level of 'Risk Appetite' and ensure the existence of a risk culture at the Bank.
- Oversee the integrity of financial statements to ensure compliance with legal and regulatory requirements, and ensure the qualitative performance and independence of the internal and external auditors.
- Review and approve major business transactions, including significant credit decisions, capital allocations and expenditures, in accordance with the approved chart of authorities.
- Oversee investment and financing activities and take major investment and financing decisions accordingly.
- Oversee and approve the policies and frameworks of human resources and corporate governance.
- Select and recommend BOD nominees to be elected by shareholders.
- Select, develop and evaluate potential candidates for senior Executive Management positions and oversee the development of succession plans.
- Determine remuneration policies for the Board of Directors and Senior Executives.
- Evaluate the overall performance and effectiveness of the Board and its members and take corrective actions as needed.
- Oversee the Bank's Corporate Governance framework and ensure compliance with agreed upon policies and provisions.
- Ensure that proper shareholder relations are maintained and their rights protected, and that shareholder meetings are conducted in accordance with applicable laws and regulations.
- Ensure shareholder interests are taken into consideration

### The Board Chairman and Vice-Chairman

The Board shall elect from among its members a Chairman and a Vice-Chairman, whereby the latter acts on behalf of the former in his/her absence in terms of exercising authorities and assuming duties. The Chairman shall be primarily responsible for the activities of the Board and its Committees, and he/she shall be the official spokesperson on behalf of the Board, and shall head the Board and the General Assembly.

**The Chairman of the Board shall ensure the following:**

- The participation of Board Members, upon appointment, in the employee induction program and in additional education or training programs, if necessary.
- The Board implements the tasks entrusted to it.
- Board Members receive all information necessary to perform tasks assigned to them.
- Determine the agenda of the Board's meetings, preside over those meetings, and ensure the issuance of meeting minutes.
- Provide sufficient time for the Board to consult and make decisions.
- The Board Committees correctly perform the tasks assigned to them.
- Evaluate the performance of Board Members at least once a year.
- The Board elects a Vice-Chairman.

## Board Committees

### The Audit Committee

#### Committee Members

**Mr. Tewfic Habesch – Chairman**

**Mrs. Lana Abu Hijleh - Member**

**Mr. Eric Shehadeh, Member**

**Dr. Tafeeda Jarbawi - Member**

**The role of the Audit Committee is to assist the Board in overseeing the Bank's financial controls with particular emphasis on the following:**

1. The integrity of internal controls and financial reporting.

2. The qualification and independence of the external auditor.

3. The performance of the internal audit and compliance functions and the Bank's external auditor.

**In order to fulfill its role, the Audit Committee shall have the following authorities and responsibilities:**

- Review internal controls.
- Review reports issued by the Inspection and Audit Department, Internal Auditor, and the Compliance Control Department, including financial and non-financial issues, and remedial procedures and means of controlling the risks faced by the Bank.
- Review and approve the annual plans of the Audit Department, the Compliance Department, and the Anti-Money Laundering Officer.
- Review the accuracy of financial statements presented to the Board, shareholders and other stakeholders.
- Review the Bank's commitment to laws and regulations of the Palestine Monetary Authority, the Board, and other regulations applicable in Palestine.
- Review the External Audit plan and ensure that it includes all activities implemented by the Bank.
- Ensure the accuracy and integrity of accounts and compliance with laws and regulations applicable to Bank activities.
- Develop disclosure and transparency standards and submit them to the Board for approval.
- Review notes mentioned in the PMA's reports and follow up on corrective measures adopted to ensure their implementation and offer relevant recommendations to the Board on the appropriate remedial steps.
- Coordinate with the Risk Management Committee to present the Bank's financial standing and performance.
- Study the financial system applied at the Bank and present recommendations to improve it, and ensure that these recommendations fairly represent the situation and that no false data are recorded.
- Apply a system that allows employees to report confidentially their concerns about potential violations and in a manner that that makes it possible to independently investigate and follow up on such violations without being punished by their superiors or ill-treated by colleagues. The Audit Committee shall monitor the implementation of these procedures.
- Act as a liaison between the Board of Directors and the External Auditor, between the Board of Directors and the Internal Auditor, and between the Internal and External Auditors.
- Follow up on the Bank's adherence to its internal Code of Professional Conduct.
- Notify the Board of Directors on issues that require its immediate intervention and offer recommendations on the appropriate remedial steps.
- The audit committee shall submit reports to the Board of Directors on all matters that fall within its scope of work, thereby enabling it to carry out its function of monitoring the management of the Bank and submitting to shareholders and investors factual and documented information.
- Provide the Board of Directors with independent and objective advice regarding the adequacy of measures related to auditing, compliance, and the combating money laundering and terrorism financing.



Overview - Corporate Governance - Strategic Review - Operational Review - Bank of Palestine Group - Financial Statements

### The Risks and Compliance Committee

#### Committee Members

**Mr. Eric Shehadeh – Chairman**

**Mrs. Linda Tarazi – Member**

**Mr. Adel Dajani – Member**

**Mr. Tewfic Habesch – Member**

**The role of the Committee is to assist the Board of Directors in overseeing the following:**

1. The risks inherent in Bank activities and the control processes with respect to such risks.

2. The assessment and review of all forms of risks, including credit, Treasury, and operational risks.

3. In terms of procedures related to risk management at the Bank and its subsidiary branches, and to enable the Committee to implement its role, it shall have the following responsibilities:

- Approve general risk management policies and ensure the existence of an effective risk management framework to proactively identify, measure, mitigate, and monitor all types of risks and promote continuous dialogue about risk management throughout the Bank (i.e. promoting a 'Risk Culture').
- Determine the overall risk appetite of the Bank and ensure that the size of risks and level of their acceptance are in line with the approved level.
- Obtain assurance from the Executive Management and the Internal Auditor that risk management systems and processes are operating effectively, through sound control tools and adherence to approved policies.
- Ensure the Bank's compliance with effective laws and regulations related to risk management policies and procedures.
- Review the Bank's capital adequacy and provisions to ensure their compliance with regulatory guidelines and in line with the Bank's risk profile.
- Review reports received from the Executive Management on the state of the risk portfolio on a quarterly basis (at least) or as needed, and highlight the areas, trends and forecasts of major risks, and measures adopted by management to address particular ones.
- Review significant risk exposures and the steps taken by Management to follow up, monitor and record all types of risks, including credit, market, operational, liquidity, compliance, reputation and strategic risks, and all types of internal and external risks that affect the Bank.
- Provide direction and guidance to Management, as needed, to help it improve risk management practices and/or mitigate particular risks, and ensure the existence of qualified personnel at the managerial level to effectively carry out risk management activities.
- Notify the Board of Directors on a regular basis about the status of the risk portfolio, and immediately report substantial changes affecting it.
- Review the appointment, performance, and replacement of the Chief Risk Officer and monitor the efficiency of Risk Management departments in general.
- With the assistance of the Risk Management Officer, support the efforts of the Audit Committee in conducting monitoring and evaluation in accordance with the instructions set forth by the Palestinian Monitory Authority.

**Board Committees**

## The Executive Committee

### Committee Members

**Mr. Hashim Shawa – Chairman**
**Mrs. Maha Awad – Member**
**Mr. Abdullah Al Ghanim – Member**
**Mr. Tarek Aggad – Member**

- The Executive Committee is primarily responsible for overseeing activities, operations and business to ensure the Bank's continuous achievement of its long-term strategic goals. As such, the Committee directly supervises the main duties and functions of asset and liability management, asset growth, business development, annual budgets, capital adequacy, mergers and acquisitions, new markets, international agreements and representations, and social responsibility programs.
- The Committee reviews loan requests, investment decisions and all financial obligations to be construed upon the Bank from any other activities that exceed the authorities of the Executive Management, and accordingly, the entire Board is notified to take the appropriate decision. In the event that the requests are higher than the powers of the Committee, the latter reviews and evaluates them, and submits recommendations to the Board to take a decision accordingly.
- The Committee reviews and submits recommendations to the Board on business or restructuring plans, including material changes in key functions and positions, geographical distribution of branches and operations, and relations with correspondent banks.
- In this context, the Committee executes the aforementioned plans based on the reports submitted by the Bank's General Manager and Executive Team.
- The Committee determines its scope of work, programs, objectives and annual plans in a manner that enables it to define its responsibilities and evaluate the works and activities it supervises or takes decisions in respect of.





## The Human Resources and Corporate Governance Committee

### Committee Members

**Mrs. Lana Abu Hijleh – Chairwoman**
**Dr. Tafeeda Jarbawi – Member**
**Mr. Hashim Shawa – Member**
**Mr. Adel Dajani – Member**

**The role of the Committee is to monitor the Bank's corporate governance framework, the Board member nomination process and remuneration policies, evaluation of Board members and Executive Management, succession planning and human resource development policies. In order to carry out its role, the Committee is assigned the following powers and responsibilities:**

- Review and approve major HR policies to ensure they are fair, competitive, complete, and in the best long-term interest of Bank of Palestine.
- Assist in monitoring major changes and improvements in the HR function to ensure their alignment with the Bank's strategy.
- Prepare a chart of Management authorities and delegations to be reviewed annually and raised to the Board of Directors for approval.
- Consider possible conflicts of interest between Board Members and agreements with relevant parties, and raise recommendations to the Board of Directors in accordance with the Bank's Corporate Governance instructions.
- Review all change in status (including fulfilment of member independence requirements) and the professional affiliation of current members, and make relevant proposals to the Board in accordance with the Bank's Corporate Governance instructions.
- Supervise the implementation of the induction process of new Board members and the continuous development and education program for current members, as necessary.
- Review Corporate Governance policies and practices throughout the Bank and raise relevant proposals to the Board to improve their efficiency and effectiveness.

## The Evaluation of Committees

The Human Resources and Corporate Governance Committee shall take charge of evaluating all Board Committees.

Board Committees

## The Sustainability Committee

### Committee Members

**Dr. Tafeeda Jarbawi – Chairwoman**
**Mr. Hashim Shawa – Member**
**Mrs. Lana Abu Hijleh – Member**
**Mrs. Lama Kanaan – Member**

### Committee Roles and Responsibilities

- Adopt a governance structure for sustainability, its framework, policy and procedures, and the associated strategic sustainability priorities and agreed upon objectives, to guide the proper implementation of sustainability in all stages and functions of the Bank and the Group, and amend and/or update this structure periodically and when needed, in line with sustainability trends, risks, and up-to-date opportunities, according to the internationally recognized governance principles and foundations.
- Deep-root the concept and practice of sustainability in the Bank's strategy, policies, procedures, administrative systems, activities and culture, and ensure the application of best practices vis-à-vis the social and environmental dimension.
- Identify and support the most effective and impactful sustainability initiatives that aim to improve performance at the level of the Bank and the Group.
- Provide support and direction for the Sustainability Department and ensure that the latter completes its duties Bank-wide.

### Specific Procedures

- Review and evaluate the short- and long-term sustainability goals, which include the most important sustainability issues in order of priority, a performance indicator record, and stakeholder expectations chart, and ensure that they are included in the Bank's annual business plan.
- Approve sustainability policies and procedures necessary for the implementation and success of the Bank sustainability framework and plans.
- Measure and review performance, taking into consideration indicators on an annual and quarterly basis, and follow up on the implementation of the Committee's recommendations.
- Evaluate the Bank's response to major sustainability issues on an annual basis, with an aim to improve performance.
- Discuss and approve sustainability programs and budgets that exceed the authorities of the relevant departments, and raise recommendations to the Board about the required annual program budgets.
- Review sustainability reports prepared by the competent Bank department, and prepare periodic reports for the Board on sustainability performance on a quarterly and annual basis, and approve the final annual report format before it is approved and published.
- Launch an ongoing and sustainable internal campaign, and engage stakeholders in sustainability issues.





- Verify that the Bank's policies and procedures, including risk management and credit lending policies, comply with the sustainability principles approved by the Board of Directors.

## Other Responsibilities

- Verify that the objectives and elements of sustainability are reflected in all aspects of business performance, Bank management and governance, which include, for example, the governance structure, the structure of the Board of Directors and its Committees, the integration of sustainability into corporate governance and responsible business, growth and economic impact, risk assessment and risk management practices, compliance, monitoring commitment and transparency, and preparing a governance structure for the practice of responsible sustainability towards employees, the code of conduct, customers, society and the environment.
- Verify the Bank's commitment to design banking products that meet the needs of customers, protect the environment, and finance projects that support the community.
- Monitor the Bank's commitment to consultation, participation and partnership with stakeholders in order to determine the issues that are most important to them and the materiality matrix, according to the classification of external and internal stakeholders, which is agreed upon during workshops, to include persons with special needs.
- Conduct continuous follow up to achieve "leadership in business and governance" and "contribute to sustainable economic development," and strive, as part of responsible business practices, to improve and develop operational activities, innovative projects and digital transformation, including but not limited to, robotic process automation, mobile banking services, online banking services, I Hub platform, etc.
- Strengthen the environmental protection policy as one of the Bank's most vital priorities by ensuring commitment to environmental responsibility, evaluating the environmental aspects of business activities, managing operations in a manner that contributes to water and electricity conservation, adopting trends for environmentally friendly buildings, heating/cooling systems, energy saving, and reducing the use of electricity and water and ensuring their optimum usage by means of automatic shutdown technologies, energy efficient heating and cooling , and energy saving lights.
- Promote and follow up on the participation (minimum 50% of total employees) of women in various Bank positions, including in leadership positions and in the Board of Directors.
- Ensure the Bank's commitment to the respect and development of employees at many levels including: talent management, gender diversity, inclusion, involvement in training and development programs, health and safety preservation, continuous communication, participation in community initiatives, participation in a diverse and inclusive selection of trainings, rehabilitation and development programs, and participation in the Innovation and Excellence Hub.
- Verify the Bank's keenness to achieve sustainable growth, contribute to the Palestinian National Development Plan, support initiatives and innovations, and finance micro, small and medium size enterprise.
- Enhance the Bank's pursuit and effective contribution to the development of the local community and maximize its social impact, within the framework of its solid and continuous track record in community giving, in accordance with its approved policy for social responsibility, which includes health care, youth and education, community participation, awareness, environment, sports and culture, and sponsorship of special activities and initiatives.

## Governance and Risk Management

The Risk Management function at Bank of Palestine aims to establish mechanisms to effectively identify, measure, manage, control and monitor risks. The purpose of managing these risks is to enhance the principle of return - risk in Bank results by ensuring that the surrounding risks are within the parameters of the risk appetite set forth by the Board of Directors and which are included in the Bank's policies and procedures, have been hedged to maximize shareholder ownership over the long run and to protect relevant parties, including customers, suppliers, investors, employees and the Palestine Monetary Authority.

Risk management does not imply avoiding risks completely, as they form an intrinsic part of the banking business. Therefore, Bank of Palestine accepts a certain risk level as part of its strategy, but at the same time, expects financial and non-financial returns proportionate with the degree of these risks.

### Risk Governance

The following principles define the Risk Governance structure at Bank of Palestine:

- The Risk Management function is an independent function at the Bank, and operates closely with all relevant units to ensure effective operations throughout the Bank.
- The Risk Management function uses its own independent information sources (Management Information Systems, Bloomberg, credit assessment reports/cards, and audited financial data).
- The Risk Management function may propose means to attain returns - based on the degree of risk, such as attaining optimum liquidity and optimum limits for the distribution of the credit portfolio.
- The methodologies and tools that have been developed by the Risk Management function are considered compatible with the Bank's business environment.
- Risk Management represents the second line of defense in the control system of the Bank, and has a clear role in ensuring the effectiveness of controls in the first line of business units.

### The Responsibilities of the Board of Directors

Setting the Risk Management Policy is one of the powers of the Board of Directors, which is responsible for approving the strategy and degree of risk appetite, as well as conduct the annual review. The Board delegates oversight of all Risk Management activities to the Board-level Risk Committee. Although this authority is delegated, the responsibility for effective Risk Management and adherence to this policy rests with the Board.

The Board of Directors reviews the Risk Management framework at least once annually or as needed and according to internal and external incidents.

#### The Board of Directors' Risk Management responsibilities include the following aspects:

- Developing a business strategy based on draft proposals for the budget and capital planning (internal capital adequacy assessment).
- Adopting Risk Management policies and clarifying/detailing the degree of risk appetite as part of this policy, including limits and tolerances. Establishing the Risk Governance framework as part of the Risk Management policy.
- Reviewing cases with high risk levels highlighted by the Risk Committee at the level of the Board of Directors.
- Delegating authority to the Board-level Risk Committee for continuous review of the effectiveness of the Risk Management framework.
- Reporting to shareholders on the Risk Management function as part of the annual report on Bank activities.
- Approving public disclosures.

#### The Board delegates the following responsibilities to the Board-level Risk Committee:

- Ensuring the application and development of the general framework for Risk Management at the Bank.
- Monitoring the effectiveness of Risk Management and following up on corrective actions.
- Reviewing the package of reports submitted by the Risk Management at least quarterly.
- Reviewing the Risk Management policy at least once a year and raise recommendations for amendments if necessary.
- Continuous monitoring of the exposure of significant risks in the bank.
- Monitoring compliance with the Risk Management policies at the Bank, compliance with the instruction of the Palestine Monetary Authority, and all other Risk Management requirements.
- Approving the appointment of the Risk Manager and the main officers in Risk Management and approving the organizational structure of Risk Management.

### Risk Management Committee at the Executive Level

#### The Assets and Liabilities Committee

The Assets and Liabilities Committee at Bank of Palestine plays the role of the Risk Management Committee at the level of the Executive Management. The Committee takes charge of the banking risk control function by presenting the latest developments in the Bank's risk profile to Committee Members.

Following is a summary of the Committee's responsibilities:

- Review, at least once a year, the overall Risk Management framework (including policies, procedures, reports, and methodologies).
- Ensure that the Bank remains within an acceptable level of banking risk as defined in the Risk Management policy, approved by the Board, and recommend corrective actions in case deviation from this policy is observed.
- Analyze Risk Management reports and take administrative measures accordingly in order to maintain acceptable and optimum levels of risks at the Bank.
- Carry out assessment, supervision and management of basic risks across the Bank, including but not limited to risks pertaining to credit, operations, interest rates, liquidity and market risks – Treasury.

## Risk Management Departments

The Bank Risk Management departments report to the Risk Officer. These departments and are responsible for implementing and developing the general framework for banking risk management, and their responsibilities are limited to the following:

- Develop procedures, methodologies and tools for managing risks throughout the Bank.
- Monitor the banking risks file throughout the Bank and prepare reports accordingly.
- Conduct a pre and/or post review of some banking operations in accordance with the parameters indicated in the Risk Management Policy.
- Submit a risk-based assessment of some procedures and submit results and recommendations to the Risk Committee.
- Support a Bank-wide risk culture, develop a common language based on this culture, and provide the necessary support and training to achieve this.
- Provide explanations for risk-related regulations and practices and disseminate them at the level of business units.
- Provide training for business branches and units on Risk Management and the strict monitoring of operations.
- Review important procedures, policies, products and operations that impact the banking risk file prior to obtaining final approval.
- Annual review of the risk-based budget and capital planning, in connection with the Bank's financial budget.
- Study the relationship between economic, political and market variables and the competitive environment and their impact on BoP' banking risks.
- Monitor and follow up on compliance with the requirements of the Palestine Monetary Authority and set time limits for compliance with this requirements.
- Report to the Board of Directors on important issues resulting from the review process.
- Develop awareness of the importance of Risk Management at the level of Management and staff and assist the Risk Management function in spreading the culture of banking risks Bank-wide.
- Recommend/supervise official training provided to Bank staff on banking risk management.
- Review the Bank Risk Management Policy prior to obtaining approval from the Board of Directors.
- Discuss/review important procedures, policies, products and operations that impact the banking risk file prior to obtaining final approval from the Board of Directors.

**Responsibilities of Business Units**

Business units at BoP Headquarters take charge of the daily Risk Management process, and their responsibilities include the following:

- Identify, measure, evaluate, monitor and report on the various risks related to the business unit.





- Assess the effectiveness of systems and controls used to monitor daily work, and design, operate and monitor systems compatible with the nature of business operations.
- Recommend business proposals that are consistent with the degree of risk appetite stipulated in business policies.
- Report cases and incidents related to risks (losses related to operations) to the concerned risk departments on a regular basis.

## Executive Management

**Mr. Mahmoud Shawa**
Chief Executive Officer
- MS Finance and Banking
- University of Wales 2007
- Date of Birth: 24/7/1982
- Joined BOP in 2005

**Mr. Naser M. R. Bakeer**
Chief Business Banking Officer
- BS of Accounting
- AL Mansoura University
- Date of Birth: 23/07/1969
- Joined BOP in 1994

**Mr. Salim Degaulle Hodali**
Chief Retail Officer
- BS Business Administration
- Bethlehem University
- Date of Birth:19/01/1984
- Joined BOP in 2005

**Mr. Yazan Hani Al Masri**
Chief Treasury Officer
- BS Finance and Banking
- Birzeit University
- Date of Birth: 08/05/1990
- Joined BOP in 2012

**Mr. Sakhr Nammari**
Chief Financial Officer
- BS Accounting and Business Administration
- The University of Edinburgh
- Date of Birth: 17/12/1978
- Joined BOP in 2018

**Mr. Hanna Basil Sahar**
Chief Credit Officer
- MBA
- Northwestern University
- Date of Birth: 06/10/1972
- Joined BOP in 2020

**Mr. Najeeb J. N. Yaser**
Chief Audit Officer
- MBA
- University of South California
- Date of Birth: 30/05/1978
- Joined BOP in 2017

**Mr. Suliman M. S. Naser**
Chief Compliance and AML/CFT Officer
- MBA
- Birzeit University
- Date of Birth: 25/10/1978
- Joined BOP in 2000

**Mrs. Amal Massis**
Chief Risk Officer
- MBA
- Birzeit University
- Date of Birth: 20/2/1978
- Joined BOP in 2014



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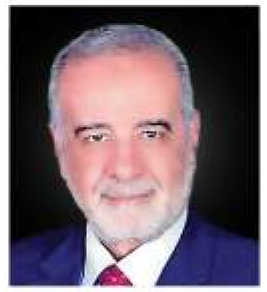
**Mr. Musa Shamieh**
Chief Operations Officer
- MBA
- Birzeit University
- Date of Birth: 08/03/1966
- Joined BOP in 2014

**Mrs. Randa S. Mousa Abdallah**
Chief Human Resources Officer
- MBA
- Birzeit University
- Date of Birth: 14/05/1974
- Joined BOP in: 2011

**Mr. Kamel Husseini**
Chief Strategic Relations & Engagements Officer
- MBA
- The American University of Washington D.C.
- Date of Birth: 11/02/1966
- Joined BOP in 2016

**Mrs. Maisa Jawdat Shunnar**
Chief Digital Transformation Officer
- MS Business Relations and Leadership
- Jones International University
- Date of Birth: 07/02/1969
- Joined BOP in 2022
  Resigned on: 31/03/2024

**Mr. Abdel Karim Taha**
Chief Information Technology Officer
- BS Electrical Engineering
- Jordan University of Science and Technology
- Date of Birth: 15/03/1973
- Joined BOP in 2023
  Resigned on: 24/08/2023



**Mr. Khamis Fawzy Asfour**
Legal Advisor
- BS of Law
- Alexandria University, Egypt
- Date of Birth: 29/05/1952
- Joined BOP in 1979

Risk Management

## Operational Risks Management

Bank of Palestine is primarily concerned with the early detection and assessment of operational risks, allowing for their timely mitigation. The Bank also prepares focused management reports and regularly improves controls. Operational risks are represented in loss arising from the inadequacy or failure of internal processes, people and systems, or from external events, and may also arise from all operations and activities undertaken by the Bank. Bank of Palestine attaches great importance to its operational risk management process and proactively monitors operational risks, maintaining them within the range of targeted levels and in line with the realization of strategic objectives.

## Governance

Stemming from Bank of Palestine's attentiveness to operational risk management, the Board Risk and Compliance Committee approved a policy that clarifies the general approach of the operational risk management framework. The Committee also observes the process of devising strategies for identifying, evaluating, monitoring and controlling risks in line with the accepted levels, and supervises the risk management framework, in line with the recommendations of the Basel Convention.

## The Three Lines of Defense

With the aim to create a robust control system for risk management, the Bank adopted the Three Lines of Defense Model, which defines the responsibilities and obligations of Management in managing the risks and the control environment. The model also supports the Bank's approach to Risk Management by clarifying responsibilities, encouraging collaboration, and facilitating effective coordination of risk and control activities.

## Risk Culture Awareness

A strong risk culture and good communication between the Three Lines of Defense are the most important qualities that contribute to achieving effective operational risk management. Bank of Palestine's operational risk culture is based on creating awareness among all members of the Bank's family about the importance of operational risk management.

## International Standards

As part of the risk management process, Bank of Palestine applies international standards in risk management and hedging against the surrounding environment. This is done by following RCSA (Risk Control Self-Assessment) methods, which comply with Basel requirements and sound operational risk management practices to promote an integrated control environment. Risks in operations are identified and measured in terms of likelihood of occurrence and impact, in addition to assessing the controls in place in terms of quality of design and compliance. The Bank involves many employees in the assessment process to enhance their initiative in risk assessment and proper reporting of risk events. It also establishes an understanding for risk management concepts throughout its units and departments to integrate them in the employees' culture.

## Risk Indicators

While applying the SAS Enterprise GRC program, the Operational Risks Department was able to define several risk indicators that allow the Bank to predict instances of future losses. These indicators differ in nature; some are predictive and provide indications of the likelihood of future risks, thus assisting in avoiding them; some are detective, showing signs of risks in their early stages, which enhances the speed of response to these risks; while others are corrective, and assist in documenting the recurrence of these risks and their impact. Continuous tracking of key risk indicators allows business units to respond immediately to any changes in the risk and control environment at the Bank.

## Ensuring Business Continuity

Bank of Palestine prepares business continuity plans using a methodology that is commensurate with the complexity of banking operations and the potential scenarios that may occur in our highly variable region. These plans are in line with our growing market share and our classification as a regulated bank. Business Impact Analysis (BIA) models were designed, considering the specificity of our local environment and compliance with international standards in assessment. These models analyze the potential risks in terms of operational and financial impact and the degree of interdependence of the units, and contribute to defining strategies commensurate with the size and appetite of the risks, building plans that address the likelihood of these risks in a workable manner, and practicing their completion to match the level of preparedness to the level of the event, whether by checking the readiness of networks, software, systems, applications and critical reports, or performing critical tasks from the alternative site of the business administration in simulation of a scenario where business in the main site (the General Administration Headquarters in Ramallah) is interrupted, and the successful completion of operations from the alternative





site (Bank of Palestine – Bethlehem) is checked.

## Risk Control

To enhance the integration process between the work of the Operations Risk Department and the Control and Inspection Department, and to activate the application of the Risk-Based Audit approach, the Operations Risk Management System allows the Control and Inspection Department to access the risk profiles of all business units, view the Key Risk Indicators (KRIs), and be guided by the Incident Register to build audit plans in a way that targets high-risk units and processes as priorities in their audit plans, and optimize the utilization of the Department's resources.

## Information Security Risk Management

Stemming from the keenness of the Risk Management function to protect the Bank's digital technology systems and services from exposure to cyber-attacks, central security threat and vulnerability management systems and central control systems for security and risk incidents have been implemented in accordance with international measures and standards, applying protection and encryption to all services, in order to ensure the confidentiality and security of data and protect it from technical fraud and theft. The information security infrastructure has been supported by a high-quality network and communications protection system, which ensures the prevention of any external hack threat on the Bank's internal systems, and that electronic payment card data (VISA and Master Card) is encrypted to ensure that all premium services (E-Commerce, 3D-Secure) comply with these international standards.

The Information Security Risk Department was also created to implement and enforce information security standards according to ISO27001 standards and adopt information security policies that stem from the controls of the Information Security Management System (ISO27002), with the aim of applying the principle of governance according to international practices, achieving the Bank's strategic objectives of digital transformation, and ensuring continuous monitoring, review and development.

## The Payment Card Industry Data Security Standard (PCI DSS) Compliance Certifica-tion

Bank of Palestine obtained a certificate of compliance with the application of the Payment Card Industry Data Security Standard (PCI DSS) and was the first Palestinian banking institution that has been committed to information security standards and payments data since 2018 to protect the privacy of customer information.

This certificate is issued by the Payment Card Industry Data Security Standards (PCI DSS) based in the United States, ensuring the Bank's commitment to devising a strategy that prioritizes the protection of customers and the confidentiality of their information. This certification includes protection of information security at the main data center and the alternative location, including all BoP branches and offices in the West Bank and the Gaza Strip. It also encompasses the largest ATM network, all direct points of sale in the West Bank and the Gaza Strip, internet and mobile banking, bank cards and e-commerce services.

This certificate adds to the achievements that Bank of Palestine and its subsidiaries strive to achieve in the field of electronic services, by providing the best means to ensure the realization of the Bank's mission to gain the trust of all its customers, by providing distinctive services that are in line with the changes within the framework of adhering to the VISA and MasterCard principles, enhancing the protection of cardholders' data and providing secure payment channels and services for them.

Obtaining the PCI DSS certification will bring great benefits to Bank of Palestine and the e-commerce market in Palestine in general, by maintaining the confidentiality of payment card data used by the Bank and the e-commerce sector, in addition to the Bank's commitment to invest in the latest technological programs, keep abreast of all developments related to protecting the confidentiality of customer information, and develop modern systems that contribute to implementing banking operations in an automated, computerized, safe and secure manner.

## Disaster Recovery

Bank of Palestine developed a Disaster Recovery Center that underwent the necessary technical checks and equipped it with the latest technologies that allow for the resuming of services from the alternative location within less than 15 minutes post any incident. Maintaining the continuity of service provision to customers is on Bank of Palestine's top list of priorities, and therefore, the Bank invested in advanced technology that ensures the transfer and preservation of data simultaneously in the alternative location, so that electronic services become stable in a manner that complies with the highest international standards in managing business continuity and the risks of service interruption.

Bank of Palestine developed a disaster recovery site and conducted the necessary technical tests on it. This site is equipped with the latest technology that enables the Bank to restore services within

Risk Management

less than an hour from the alternative site in the event of a service interruption from the main site. These results come after Bank of Palestine invested in advanced technology that ensures the immediate transfer and preservation of data at the alternate site, ensuring the stability of electronic services and compliance with the highest international standards in managing business continuity and service interruption risks. Bank of Palestine prioritizes maintaining the continuity of service delivery to enhance customer reliability and trust.

## Credit Risk Management

The bank works diligently to minimize credit risk, considering it the main and direct source of threat to its activities, and has adopted the best methods and practices to follow many appropriate methods and procedures. The department responsible for credit risk management includes a specialized team with high expertise and competencies in this field. This team relies on several risk management tools, such as monitoring the credit portfolio and redirecting it in line with the Bank's strategic aspirations, considering the risks surrounding the business environment, in addition to using statistical methods and exposure volume to review the credit granted, adjusting the credit cycle, periodically reviewing portfolio limits, evaluating credit products, and exposing the credit portfolio to stress tests based on stressful scenarios. This is in addition to assessing the impact of contingent events such as wars, disasters and crises on the credit portfolio.

Since Bank of Palestine is one of the most regulated banks in the Palestinian banking sector, during the past year, the Credit Risk Department developed its work by implementing several procedures, updates, and publications that are of interest to all Bank stakeholders.

In this context, the Credit Risk Department worked on updating and developing the credit risk management policy and work procedures manual, to keep pace with local, regional and international developments. To achieve this, the department prepared a risk appetite document for the most important indicators of credit risk, based on solid scientific foundations, which was duly approved by the Board of Directors. This document contains parameters that are subject to periodic monitoring, which were set to help minimize the levels of default on the credit portfolio, in line with the Bank's strategic vision.

The department seeks to create a comprehensive credit risk management system and achieve a proactive role in monitoring risks. It has developed and regulated the indicators of the early warning system for the credit portfolio in cooperation with the relevant departments. The system is being finalized and tested over the next year, with the main aim to implement corrective measures and early handling of customers who reveal default indicators.

In accordance with the Basel Committee guidelines, and in addition to the stress tests issued by the Palestinian Monetary Authority (PMA), the Credit Risk Department developed internal stress tests adapted to Bank of Palestine's portfolio, by assuming new situations and scenarios that are not covered in the PMA guidelines, to study the impact of these scenarios, in the worst-case scenario, on the Bank's capital base and profitability.

## Treasury Risks

The Treasury Risk Department directly and effectively monitors all treasury activities, including liquidity, investments, employment or foreign exchange, using global measuring tools, and assesses and monitors counterparty risks to regulate and control the relationship with all counterparties. In this context, the Risk Management Department has adopted international standards for identifying, assessing and managing treasury risks to ensure transparency and accuracy in the performance of tasks, and control any risks that may arise from market price fluctuations or resulting from the political situation.

Stemming from the Bank's awareness of the importance of monitoring the risks of treasury activities, the Treasury Risk Department established the Middle Office to oversee any risks that may result from the daily work of the Front Office of the treasury departments, and the banking system was developed to match the requirements and procedures of the Middle Office to protect the Bank from any risks that may result from treasury operations as a second line of defense.

This year, the Treasury Risk Department also developed internal stress test scenarios, which are a proactive indicator of the market and liquidity risks to which the Bank may be exposed and illustrate the Bank's ability to address them should they occur. These scenarios, which are implemented at three levels (mild, medium and severe) were included in the emergency financing plan, which was developed to cover liquidity needs in case of emergencies and unexpected crises, including financing lines available under liquidity crises, to ensure liquidity for all the Bank's activities and hedge against any future risks that may arise in the event of unexpected liquidity crises.





Risk appetite and the acceptable level of risk, which is an indicator to measure all risks resulting from treasury operations (concentration risk, investment, counterparty, interest rate, exchange rate and liquidity risks), has been defined to act as an early warning system to deter any additional risks that may result from excessive or imprudent risk exposure, and is periodically approved by the Board of Directors.

To ensure business continuity, even during liquidity crises, an emergency financing plan was developed and updated in coordination with the treasury departments and linked to internal stress test scenarios.

## The Expertise of the Risk Management Team

The risk management staff was upgraded with the highest standards of international training and qualification, as they obtained the international certifications in the field of risk (Certified Risk Specialist), in addition to ISO27001 Certified Lead Auditor, Certified Information Security Professional (CISSP), Certified Governance Risk Management and Compliance Specialist (CGRCS), ISO 31000 and Risk Management Professional courses, from the relevant international councils.

## The Executive Risk Management Committee

Based on Bank of Palestine's interest in setting a culture of risk in all its activities to promote good governance and a risk-based approach with the highest level of efficiency and effectiveness, the Bank adopted an Executive Committee for Compliance and Risk Management, which is responsible for aligning the Bank's objectives with acceptable risk levels, overseeing risks and ensuring that they remain within acceptable levels, in addition to overseeing compliance risks.

## Reporting to the Board of Directors

Reporting to the Board of Directors is done through the Risk Management and Compliance Committee, enabling the Board of Directors to keep abreast of the Risk Profile, Risk Register and internal control procedures.

## The Role of Risk Management Department in Managing Risks during the War on the Gaza Strip

### The Crisis and Emergency Management Committee

Following the outbreak of the war on 7 October 2023, Bank of Palestine immediately activated the Crisis and Emergency Management Committee, which consists of department directors and managers, each with responsibilities and tasks that contributed significantly to the effective management of the crisis. The committee was keen to exercise its responsibilities from the onset of the crisis by conducting a study and preliminary assessment of the repercussions of the successive events and their impact on business continuity in the Bank's branches and departments, despite the challenges it faced because of the uncertainty associated with the war, including its unknown duration and negative impact on all sectors and various aspects of life. The Crisis and Emergency Management Committee worked on drawing different and multiple scenarios that included analyzing the credit portfolio, assessing protection and security systems, assessing infrastructure, staff security and safety, assessing liquidity, implementing controls for procedures that required some modifications, communication outages, cyber-attacks, real-time follow-ups with sector staff where communication is available, service delivery in Gaza, and many other factors related to Bank operations, systems and protection.

## Business Continuity

As part of the proactive measures taken to ensure business continuity, the Operational Risk Department prepares detailed plans that simulate the scenario of the war on Gaza. Since this event has been repeated in previous years, the Bank was well-prepared to face it in a way that enhances the continuity of core banking operations, which have a direct impact on providing support to the Bank's customers through ATM withdrawals, the ability to carry out banking operations via electronic channels and offline USSD services, among others.

It is worth noting that the plans were dynamically changing according to different variables, whether the closures in the West Bank or the increased pace of events in the Gaza Strip, which worsened as the war continued. In this context, the Risk Department prepares a Business Impact Analysis (BIA) in partnership with the Bank's various business units to proactively analyze and assess the potential consequences that could result from the crisis in the event of business interruption. This is done by using several criteria that focus on measuring the impact of the crisis on business interruption and the expected financial impact in the event of business interruption, as well as assessing the degree of dependence of the business units on each other and external organizations to ensure the availability of appropriate teams and communication channels. This process is a very important step, as its outputs identify the most important provisions needed for devising business continuity and crisis management plans, as well as the most important provisions to be considered during crisis management, summarized as follows:

### Pre-Crisis Hedging Phase

- Identify critical banking operations provided to customers.
- Identify critical systems.
- Identify the core and standby team to ensure operation from the West Bank and follow up on the necessary training.
- Allocate tasks and responsibilities to management departments.
- Evaluate the need to redistribute critical tasks and staff in management departments.
- Identify remote teams and the need for active communication between the Risk Management Department and Department Managers to understand the workload, provide advice and the required resources.
- The dependency of business units on each other and on external organizations and the identification of the necessary communication channels and mechanisms.

### Crisis Management Phase and Doing Business in Accordance with the Business Continuity Plans

- Activate the remote work plan and mechanisms, which include increasing the scope of the VPN, purchasing laptops, ensuring that all security controls are implemented, and continuously evaluating the activation of the service.
- Define the matrix of roles and responsibilities of the Crisis and Emergency Management Committee.
- Provide accommodation for employees.
- Activate the possibility for employees to work from Bank locations near their places of residence, prepare the appropriate premises and provide the necessary resources such as computers, desks, and telephones.
- Activate the role of the monitoring center in the West Bank to follow up on ATMs and Bank locations in Gaza.
- Establish procedures and workflows that enable effective communication.
- Assess the ceilings on electronic channels.
- Assess the validity of expired cards.
- Utilize the presence of direct point-of-sale devices to provide services.
- Activate the Call Center to serve Gaza's customers and expand the scope of work to keep up with various customer needs.
- Continuously monitor the replenishing of ATMs, repairing them, or providing fuel to operate them.
- Continuously monitor cyber-attacks and implement protection systems to counter attacks.
- Monitor developments and response, whether in terms of modifying operational procedures or responding to the relevant instructions of the Monetary Authority.
- Enhance the role of the Central Control Room in monitoring Bank locations.
- Follow up on the various developments of external parties, whether correspondent banks, insurance companies, guarantee funds, or core providers.
- Activate communication channels with foreign institutions, shareholders, and partners.
- Provide donations and assistance as part of the humanitarian response.
- Identify and measure various risks and monitor their occurrence.
- Assess the gap in departmental operations management and enhance the required expertise and staff.
- Monitor damages.

Bank of Palestine's methodologies formed a solid foundation to ensure the reliability and continuity of business during the crisis.





## Precautionary Measures to Assess the Impacts of the War

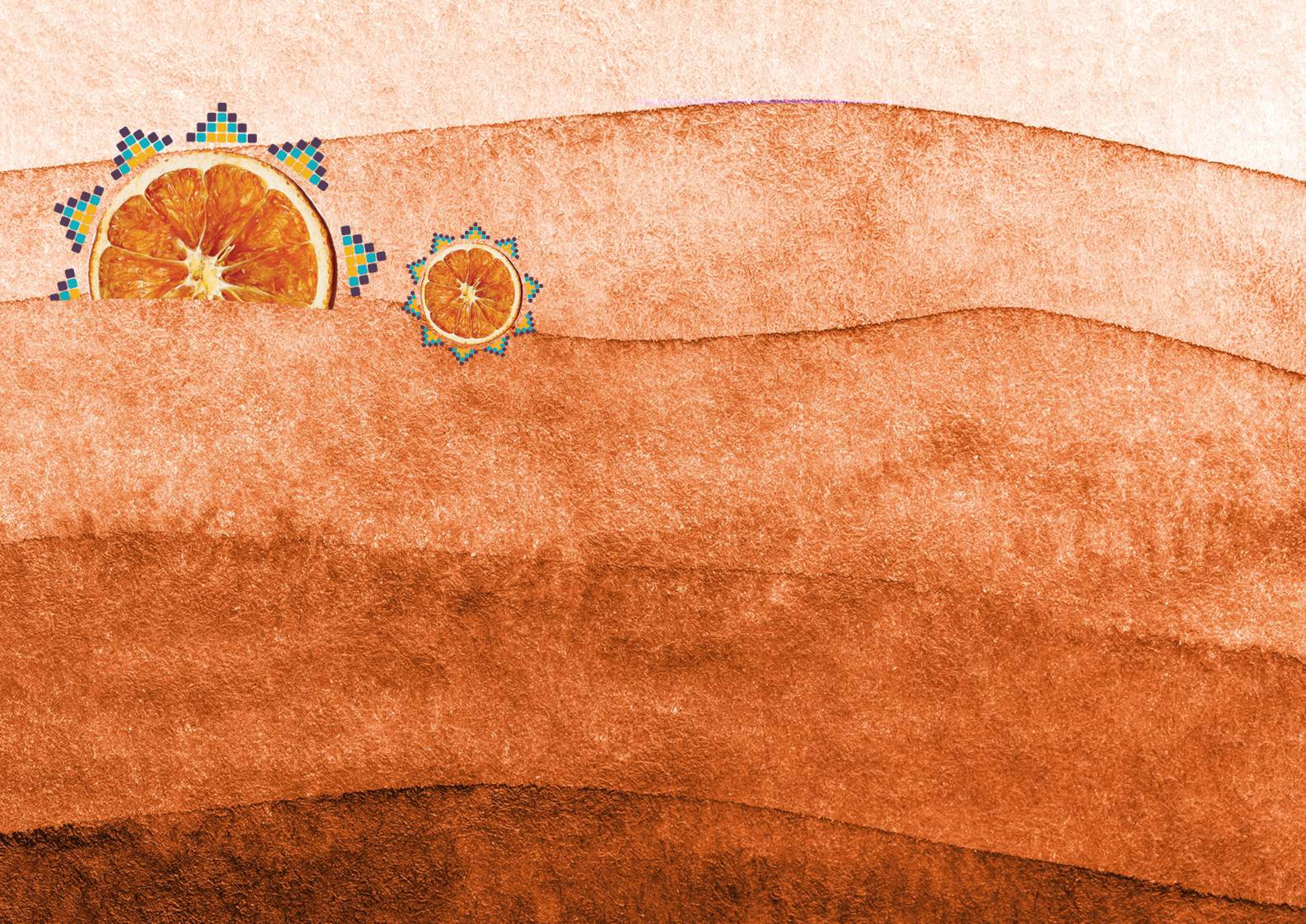
### The Credit Portfolio

Since the first week of the outbreak of the war, the Credit Risk Department, in cooperation with all relevant departments, has been assessing the credit portfolio and determining its vulnerability to the repercussions of the war, noting that this assessment is carried out periodically and continuously to avoid any possible negative developments that may materially affect the quality and status of the credit portfolio. As a result of the unclear impact on Bank customers, a dynamic model was built based on a thoughtful methodology to maximize the rationality of data collection, whether at the level of individual customer assessment or the different segments and economic sectors affected, considering the distribution across different geographical areas.

This methodology is based on analyzing quantitative and qualitative data to determine the risk levels of the credit portfolio and categorize them based on the degree of credit risk inherent in each segment, whether low, medium or high risk. The results of this assessment are used to design multiple critical stress tests to simulate different scenarios to measure their impact on the Bank's financial position and capital adequacy. This continuous assessment process serves as a compass for the Executive Management in taking appropriate decisions in terms of the adequacy of allocations, credit guidance and various precautionary measures to manage the portfolio, in addition to developing appropriate solutions to address the financing needs of customers in a logical manner, especially those affected or expected to be affected by the war and its aftermath.

### Liquidity

Since the beginning of the war, the availability of liquidity was assessed at the Bank's level to meet customer needs, whether the need for cash in Gaza branches or withdrawals and transfers from the West Bank. Extreme stress tests were designed to assess the Bank's ability to withstand and absorb the effects of different scenarios for cash and non-cash liquidity as well as fixed assets. Daily monitoring of liquidity ratios, customer deposits by currency, region and segment, and the impact of currency exchange rates were intensified and compared to the pre-war situation, allowing for the swift detection of changes and avoiding liquidity risks.



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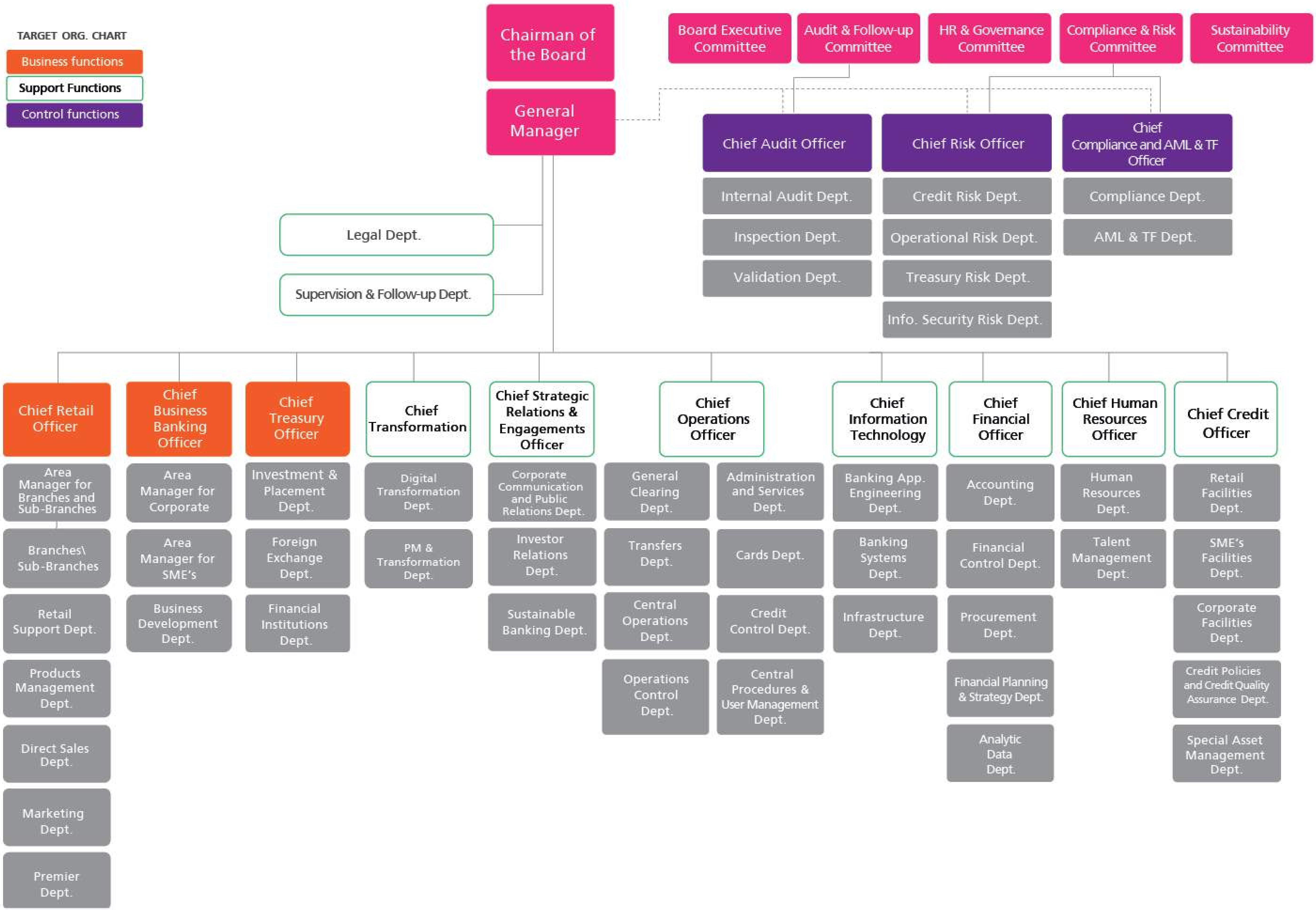
**Organizational structure**



**Anti-Money Laundering and Compliance Control**

## Anti-Money Laundering and Counter-Terrorism Financing Policy and Penalties

Protecting the Bank and its customers against risks forms an essential part of banking sustainability. Through its approved internal policies and procedures, Bank of Palestine strives to protect its services and products from being exploited in money laundering and terrorism financing operations or activities. These policies and procedures are updated and developed annually and upon need, to comply with local control requirements and international recommendations, such as: FATF 40, Basel Guidelines for Anti-Money Laundering and Counter-Terrorism Financing, Wolfsburg Principles and other leading AML and CTF practices, stemming from the Bank's commitment to the Palestinian AML and CTF law and its instructions, and relevant international standards and recommendations, including the application of Know Your Customer (KYC) policy and Customer Due Diligence (CDD).

## Accordingly:

- The Bank shall not open any accounts or deal with anonymous customers or those who hold fictitious names.
- The Bank shall not keep or open accounts from transient individuals.
- The Bank shall not maintain or deal with shadow banks and organizations.
- The Bank shall not open accounts or conduct banking transactions for black-listed customers.
- The Bank shall conduct regular inspection of customer accounts to ensure that none are blacklisted.
- That Bank shall not deal with customers involved in the following activities:

- Illegal manufacturing and trading with weapons, arms and munitions.
- Human trafficking
- Adult entertainment industry (pornography)
- Internet gambling
- Intentional or willful violations of the laws, regulations or policies relating to financial crime and/or fraud.
- Repeated, unintended or accidental violations of the law, regulations or policies related to financial crime and/or fraud.
- Misuse of accounts for Anti-Money Laundering, Counter-Terrorism Financing or fraud operations.
- Facilitating commercial activities that can be construed as a tax offense
- Refusal to provide sufficient information or documents requested by the Bank.
- Bribery and corruption.

- The Bank shall identify natural and legal customers and the real beneficiary, verify their identities through documents or data during and after opening the account, verify the validity or sufficiency of information related to the customer's identity and persons suspected of money laundering and terrorism financing.
- The Bank shall identify and collect information about the purpose of current and expected transactions on account, and the intended nature of the business relationship by using the account opening form that is designed in accordance with the Know Your Customer policy, the Bank's policy and the instructions of the Palestine Monetary Authority, in addition to the forms designated for all types of operations that are carried out on customer accounts (deposits, withdrawals, transfers, etc.)
- The Bank shall identify and evaluate risks at the level of customers and accounts and address them in accordance with the customer classification policy, based on the degree of the risk, account type, customer trends and nature of activities on account and the countries he/she deals with. Special attention is given to high risk customers by requesting sources of income and wealth, residency, and administrative approvals, depending on the risk level.
- The Bank shall issue instructions, explanations and clarifications about work mechanisms in order to implement the Know Your Customer policy and the requirements necessary for opening accounts, and for every process or relationship arising with customers.
- The Bank shall apply the Know Your Customer policy standards and practice due diligence on cross-border relationships with correspondent banks. This is done by collecting information about these banks, assessing the reputation of the receiving institution and the nature of the supervision it is subject to, obtaining approval from senior management before establishing the relationship with the receiving institution and eval
- The Bank shall maintain customer records and documents in accordance with the legal period stipulated in the law and instructions.
- The Bank shall refrain from executing suspicious financial transactions, which include money laundering or terrorism financing, or any of the predicate crimes, and shall notify the Financial Follow Up Unit immediately.
- The Bank shall promptly submit suspicious reports in the instance of reasonable grounds to suspect that the funds constitute criminal proceeds, or if it has knowledge of an incident or activity that may be indicative of a money laundering or terrorism financing crime or any of the predicate crimes.
- The Bank shall implement trainings courses and discussion sessions on the standards, indicators and activities of anti-money laundering and counter-terrorism financing, especially to new recruits.
- The Bank shall regularly disseminate instructions and circulars issued by control authorities to departments and branches as soon as they are received, and shall issue the necessary explanations and clarifications accordingly.
- The Bank shall take into account the independence of the Anti-Money Laundering Department, so that the unit reports directly to the BOD Audit and Review Committee. The Department independently monitors compliance, internal audit and risk management, and it is subject to internal auditing in a manner that does not conflict with the confidentiality of information related to suspicious reports.

## Developments

Stemming from its belief in the importance of maintaining a deterrent control environmental for money launderers, and out of its concern for customer deposits and the expectations of regulatory and international authorities, investors and correspondent banks around the world, and the sustainability of services provided, Bank of Palestine developed the following aspects to keep pace with international best practices, as endorsed by the best external audit firms:

- Customer risk calculation policy, in accordance with the best international practices.
- A methodology for calculating financial crime risks at the institutional level for all Bank products, services and channels, and mechanisms for calculating inherent and residual risks.
- Work procedures for reporting suspicious warnings, in line with international practices.
- Procedures for examining sanctions and blacklist (bans), in line with international practices.
- Procedures for examining financial transactions and monitoring money laundering and terrorism financing transactions and patterns, in addition to developing control scenarios to include globally used money laundering and terrorism financing patterns.
- Account opening procedures, aligned with the risk-based approach.
- A banking system consistent with the risk-based approach.

## Compliance and Anti-Money Laundering

- Protecting the Bank for the sustainability of its services requires a monitoring that ensures compliance with the instructions issued by regulators, as well as addressing customer and employee complaints in a professional and independent manner. Therefore, the Bank adopts an effective system to identify and manage compliance needs for the various regulatory requirements.
- Proactively managing compliance risks, and fully committing to the implementation of banking activities in accordance with all applicable laws and regulations in Palestine.
- The Bank shall fully comply with prohibiting itself from being involved with any illegal activity by setting policies to combat financial crimes, money laundering and terrorism financing. It also adopts a Know Your Customer policy through which it complies with all legal requirements related to due diligence and on an ongoing basis, to identify the true identity and the true beneficiary of bank customers, verify the names of customers against the list of prohibited persons, and report unusual activities that may threaten the environment and society, especially money laundering crimes that threaten the security and safety of society. Environmental crimes and the resulting financial proceeds are considered predicate crimes whose financial proceeds are criminalized by Palestinian law, and the Bank shall report all financial proceeds resulting from predicate crimes.
- The Compliance and Anti-Money Laundering departments shall submit a report, at least a semi-annually, to the BOD Compliance and

Risk Committee that includes an evaluation of the Bank's procedures, based on the control instructions and an assessment of the degree of compliance, in addition to the measures adopted to reduce uncovered risks.

• The Bank shall provide training programs on best practices for combating money laundering and terrorism financing and complying with sanctions, due to the impact of such programs on business sustainability and continuity, protecting the interests of stakeholders and shareholders from crime risks, and preserving the Bank's reputation from engaging in any suspicious activities.

• The Anti-Money Laundering and Counter Terrorism Financing Department shall focus on managing exposure to money laundering and terrorism financing risks and protecting assets, by assessing the inherent future and potential risks of exposing the Bank's products, services and channels to money laundering and terrorism financing risks. The Department shall also build a plan to calculate the residual risks and reduce their threat to a minimum, in order to ensure the achievement of the Bank's strategic objectives and the protection of stakeholders.

• The Bank shall build an action plan to attract all segments of society to enhance the concept of financial inclusion, which contributes to the future stability of the economy in general. This is done by encouraging marginalized groups and low-income individuals to open accounts, have access to financial services and facilitate work procedures, in a manner that serves the account-opening process for these groups, while adopting the risk-based approach. This ensures financial stability and does not terminate the business relationship with customers without understanding customer risks or the Bank's risk appetite.

• The Compliance Control Department handles customer complaints and protects their interests, as customer complaints are studied and addressed in the proper manner and to the satisfaction of the customer, with exposing the Bank to any risks. This permits the public to file complaints to a body independent from the Executive Management, conduct follow-up to take the necessary corrective measures and ensure appropriate handling of complaints. The advantage of these complaints is that they improve the quality of services and products, the methods of delivering them and their relevant work procedures.

• Through an internal committee, the Bank shall be committed to following up on internal reports submitted by Bank employees about violations they witness, without exposing them or their jobs to any danger, thus preserving the internal environment and sparing it any violations that expose the Bank to risks. The Bank shall also develop preventive methods and procedures to confront the risks of fraud, violations or any suspicious operations.

• Policies and procedures shall be constantly updated to ensure their alignment and compatibility with the developments that arise through the instructions and circulars issued by the regulatory authorities.

• Awareness messages shall be regularly published about the various risks based on the reality of daily work, in order to keep employees informed of the risks that the Bank may be exposed to.



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**Regulatory Bodies**

سلطة النقد الفلسطينية
PALESTINE MONETARY AUTHORITY

To visit the site, please scan the code using your mobile.

PALESTINE EXCHANGE
بورصة فلسطين

To visit the site, please scan the code using your mobile.

هيئة سوق رأس المال
Capital Market Authority

To visit the site, please scan the code using your mobile.

## Disclosures

### Senior Executive Management Salaries and Bonuses
The salaries and bonuses for the Senior Executive Management amounted to $5,376,210.

### Travel Expenses and Seminars for Senior Executive Management
The travel expenses and seminars for the Executive Management during 2023 amounted to $246,162.

### Loans Granted to Senior Executive Management
The total loans granted to the Senior Executive Management during 2023 amounted to $4,800,714.

### Proposed Remuneration to Board of Directors
Proposed Board of Directors remuneration based on profits during 2023 is $406,980.

### Dependence on Key Suppliers and Customers
No specific local or international suppliers or customers representing 10% or more of total purchases and/or sales.

### Privileges
There are no governmental protections or privileges enjoyed by the company or any of its products under laws and regulations or otherwise. There are no patents or franchises held by the company.

### Non-Recurring Operations
The Bank's audited financial statements include all disclosures related to any realized or expected financial impact of non-recurring operations that occurred during the fiscal year, and that do not form part of the company's principal activities, considering the determinants of recent developments.

### Legal Procedures
As of 31 December 2023, and 2022, the number of cases against the Bank and its subsidiaries was (200) and (244), respectively, within the Bank's normal course of business. The value of the cases amounted to USD 65,374,211 and USD 67,518,916 as of 31 December 2023 and 2022, respectively, and the Bank's management and lawyers estimate that the Bank will not incur any liabilities for these cases except for what has been allocated to them.

### Decisions with Material Impact
Israeli military decisions are one of the main obstacles in managing the Bank's operations, especially the siege imposed on the Gaza Strip and the military checkpoints that cut off the West Bank. However, Bank of Palestine was able to adapt to these decisions. Bank of Palestine's possession of the largest banking network in the Palestinian territories has enabled it to manage and sustain its operations under these circumstances.

### Control Over the Company
There are no entities that directly or indirectly control the company.

### Board Activities during 2023
During 2023, the BoD held nine sessions to exercise the functions assigned to it as stipulated in the Government Code and the Bank's Bylaws.

### Matters Put to Vote by Shareholders
No matters were raised or put to vote by any of the shareholders during 2023.

### Preliminary Financial Statements
There is no difference between the previously disclosed preliminary financial statements and the final financial statements.

### Auditors
The 2023 financial statements were audited by Ernst and Young.

### Information Delivery Mechanism
The Annual Report will be sent electronically to all shareholders at their registered addresses along with the invitation card for the General Assembly meeting, and the report will be available for viewing at all our branches and on the Bank's website.





## Investor Relations and Shareholders' Information

# Strengthening Shareholder Communications Amid Humanitarian and Economic Crises

Bank of Palestine places the trust of its shareholders at the forefront of its priorities. Over the years, this commitment to mutual trust has driven our growth and sustainable development, helping us navigate various challenges, including the recent war on Gaza, which has significantly impacted all aspects of life. Despite these exceptional circumstances, our shareholders' confidence in our performance and crisis management strategies has been reinforced on three fronts:

### ▪ Innovative Digital Banking Solutions
We developed advanced digital banking services, ensuring the continuous provision of essential financial services to our customers in Gaza during the war. This included regular replenishment of ATMs, branch operations during the truce, and point-of-sale services. The Bank has continued servicing it's clients amid the war and ensured to provide the needed products and services to international relief organizations, who also benefited from these solutions.

### ▪ Enhanced Shareholder Communication
Our proactive communication with shareholders has bolstered their confidence and motivated their continued moral support and investment in BOP. We maintained regular contact with them, providing them reassurance about the Bank's status and updates on business continuity, financial resilience, and our social responsibility efforts during the war.

### ▪ Comprehensive Social Responsibility Programs
Our social responsibility initiatives target health, education, the environment, entrepreneurship, and technology sectors. Under a sustainability framework focused on Society, Environment, and Governance, we balance social investment with financial returns, preserving the rights of shareholders and stakeholders. In response to the recent war in Gaza, we launched a relief bridge initiative, providing donations to local and international non-profit organizations to provide people with basic needs during the compelling war conditions.

### Communicating with and Updating Shareholders
The Bank's Investor Relations team is dedicated to maintaining constant communication with shareholders and investors, ensuring they are informed about important developments, particularly during the exceptional circumstances in Palestine. Shareholders and investors receive regular updates on the Bank's activities, events, financial and non-financial achievements, and measures taken to address challenges, highlighting the Bank's strength and resilience. Bank of Palestine has consistently navigated crises successfully, most recently demonstrated by passing several credit and liquidity stress test scenarios.

To reach all shareholders and investors, the team employs various communication methods, including:

- Disseminating press releases and news via email.
- Publishing announcements on local, Arab, and international news websites.
- Sharing information through the Bank's social media platforms such as LinkedIn and Facebook.
- Direct communication with shareholders via video conferencing, especially during challenging times.

**Investor Relations and Shareholders' Information**

Additionally, the content of the Bank's website has been enhanced to include key information for shareholders and investors, such as stock performance, press releases, financial disclosures, investor presentations, and annual reports.

## Investor Relations Strategy

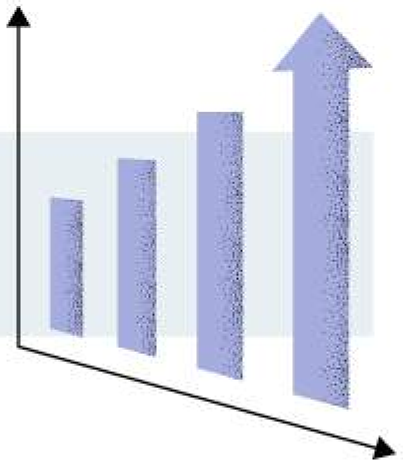
Our investor relations strategy is grounded in best practices for shareholder relationship management, emphasizing transparency, disclosure, and comprehensive reporting of the Bank's financial results to all stakeholders. This strategy also aims to enhance our shareholder base by attracting strategic and impact investors, who add value to the Bank and promotes sustainability.

Investor Relations play a crucial role in upholding the Bank's strategies in sustainability and governance principles, implementing environmental, social, and governance (ESG) standards, building trust and transparency, engaging all stakeholders, including employees, customers, shareholders, partners, and investors, and positively impacting society and the environment.

Aligned with these objectives and it's support to enhance capital solvency and capability to finance small and medium-sized enterprises (SMEs), the Investor Relations team has engaged with international development institutions. Key achievements include signing an agreement with the Japan International Cooperation Agency (JICA) to invest USD 30 million in the Bank's Additional Tier 1 Capital and finalizing a USD 30 million subordinated loan agreement with the Arab Fund for Economic and Social Development in Kuwait. The team continues to liaise with financial and development institutions to create and offer programs that align with the Bank's needs, supporting it's growth strategy, SME financing, and boosting the overall Palestinian economy.

**Investor Relations and Shareholders' Information**

## Share Information



### Financial data and Events Calendar for 2023/2024

| | |
|---|---|
| 15/05/2023 | Announcing the financial results for the first quarter of 2023 |
| 16/10/2023 | Announcing the financial results for the first half of 2023 after PMA approval |
| 17/12/2023 | Announcing the financial results for the third quarter of the year 2023 |
| 14/03/2024 | Announcing the preliminary financial results for the year 2023 |
| 30/05/2024 | Ordinary and Extraordinary General Assembly Meeting |

### Bank of Palestine Share information

| | |
|---|---|
| Listing Date | 22/09/2005 |
| Exchange | Palestine Stock Exchange |
| Symbol | BOP |
| ISIN | PS1004112600 |
| Number of shares issued | 230,677,334 shares |
| Par Value per share | $1 |
| Closing price as on December 31, 2023 | $1.80 |
| Free Float as of 31/12/2023 | 78.09% |





## Ownership of Major shareholders, Board Members, Executive Management and their relatives

### Major Shareholders above 5% or more

| | 2022 | | 2023 | |
|---|---|---|---|---|
| Name | Number of Shares | Percentage of Shares | Number of Shares | Percentage of Shares |
| Al Muhalab Kuwaiti Real Estate Company | 16,832,186 | 7.52 % | 18,135,339 | 7.86 % |

### Shares owned by the members of the Board of Directors

| | | 2022 | | 2023 | |
|---|---|---|---|---|---|
| Nationality | Members of the Board of Directors | Number of Shares | Percentage of Shares | Number of Shares | Percentage of Shares |
| Palestinian | Hashim Shawa - Chairman | 8,984,233 | 4.01 % | 9,350,000 | 4.05 % |
| Kuwaiti | Al Muhalab Kuwaiti Real Estate Company | 16,832,186 | 7.52 % | 18,135,339 | 7.86 % |
| Palestinian | Arab Palestinian Investment Company (APIC) | 9,042,331 | 4.04 % | 10,019,873 | 4.34 % |
| Palestinian | Maha Awad | 127,416 | 0.06 % | 141,238 | 0.06 % |
| Palestinian | Tafeeda Jarbawi | 286,000 | 0.13 % | 412,000 | 0.18 % |
| Palestinian | Lana Abu Hijleh | 63,592 | 0.03 % | 65,499 | 0.03 % |
| Palestinian | Emad Eric Shehadeh | 565,000 | 0.25 % | 670,838 | 0.29 % |
| Palestinian | Tewfic Issa Habesch | 97,485 | 0.04 % | 101,409 | 0.04 % |
| Palestinian | Lama Walid Kanaan | 16,000 | 0.01 % | 16,480 | 0.01 % |
| Palestinian | Linda Abdel-Karim Tarazi | 16,000 | 0.01 % | 16,480 | 0.01 % |
| British | Adel Awni Dajani | 16,000 | 0.01 % | 16,480 | 0.01 % |

### Shares owned by first and second degree relatives of the members of the Board of Directors

| | | 2022 | 2023 |
|---|---|---|---|
| Nationality | Name | Number of Shares | Number of Shares |
| Palestinian | Huda Hani Shawa | 6,123,608 | 6,307,316 |
| Palestinian | Dina Hani Shawa | 2,185,575 | 2,221,142 |
| Palestinian | Linda Patrick Shawa | 1,612,070 | 1,660,432 |
| Swiss | Bernardita Vigano Shawa | 161,602 | 200,037 |
| Kuwaiti | Nabil Hani Qaddoumi | 3,429,636 | 3,532,525 |
| Kuwaiti | Yasmine Nabil Qaddoumi | 1,604,838 | 1,652,983 |
| Kuwaiti | Laila Nabil Qaddoumi | 1,615,679 | 1,664,149 |
| Palestinian | Omar Bahaa Al-Din Baheig | 79,766 | 112,158 |
| Palestinian | Ali Basam Jarbawi | 450,000 | 515,000 |
| Palestinian | Basam Ali Jarbawi | 42,000 | 59,291 |
| Palestinian | Suad Ali Jarbawi | 225,000 | 231,750 |
| Palestinian | Claudette Habesch | 128,345 | 132,195 |
| Palestinian | Nathalie Tewfic Habesch | 2,632 | 2,710 |

## Shares owned by the Executive Management

| Citizenship | Name | Position | 2022 Number of Shares | 2023 Number of Shares |
|---|---|---|---|---|
| Palestinian | Mahmoud Maher Shawa | CEO | 11,537 | 11,883 |
| Palestinian | Sakhr R. D. Nammari | Chief Financial Officer | 2,575 | 2,652 |
| Palestinian | Kamel Aref Kamel Husseini | Chief Strategic Relations & Engagements Officer | 21,484 | 23,252 |
| Palestinian | Najeeb J. N. Yaser | Chief Audit Officer | 25,000 | 30,000 |
| Palestinian | Yazan Hani Al Masri | Chief Treasury Officer | 0 | 10,000 |
| Palestinian | Naser Mohamad Rushdi Bakir | Chief Business Banking Officer | 19,999 | 20,598 |
| Palestinian | Randa Saliba Abdullah | Chief Human Resources Officer | 3,331 | 3,430 |
| Palestinian | Amal Patricia" Masis" | Chief Risk Officer | 5,316 | 5,475 |
| Palestinian | Hanna B. G. Sahhar | Chief Credit Officer | 10,985 | 11,314 |
| Palestinian | Musa M. M. Shamieh | Chief Operations Officer | 18,380 | 18,931 |
| Palestinian | Suliman M. S. Naser | Chief Compliance and AML/CFT Officer | 12,280 | 14,000 |

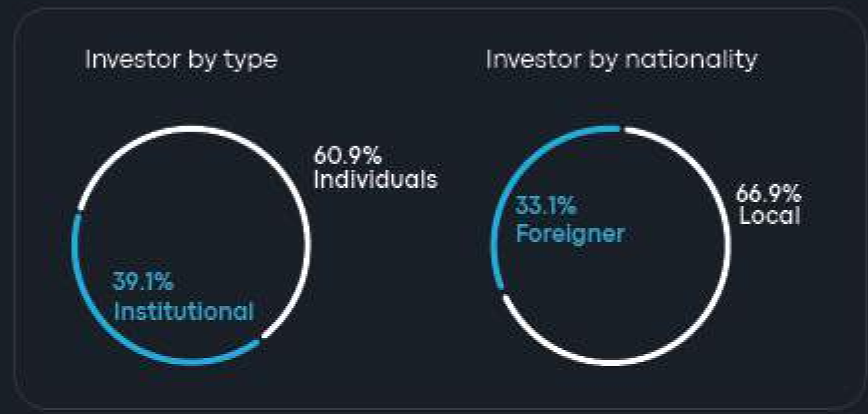
## Bank Capital Development during 2022-2023

| Type of Corporate Action (C.A) | Announcement Date | Dividend Payment Date | Outstanding shares before .C.A | No. Of New Shares | Outstanding Shares after C.A. | % of Dividends |
|---|---|---|---|---|---|---|
| Stock Dividends | 05/04/2023 | 04/05/2023 | 223,958,577 | 6,718,757 | 230,677,334 | 3% |
| Stock Dividends | 19/04/2022 | 21/04/2022 | 217,433,527 | 6,525,050 | 223,958,577 | 3% |

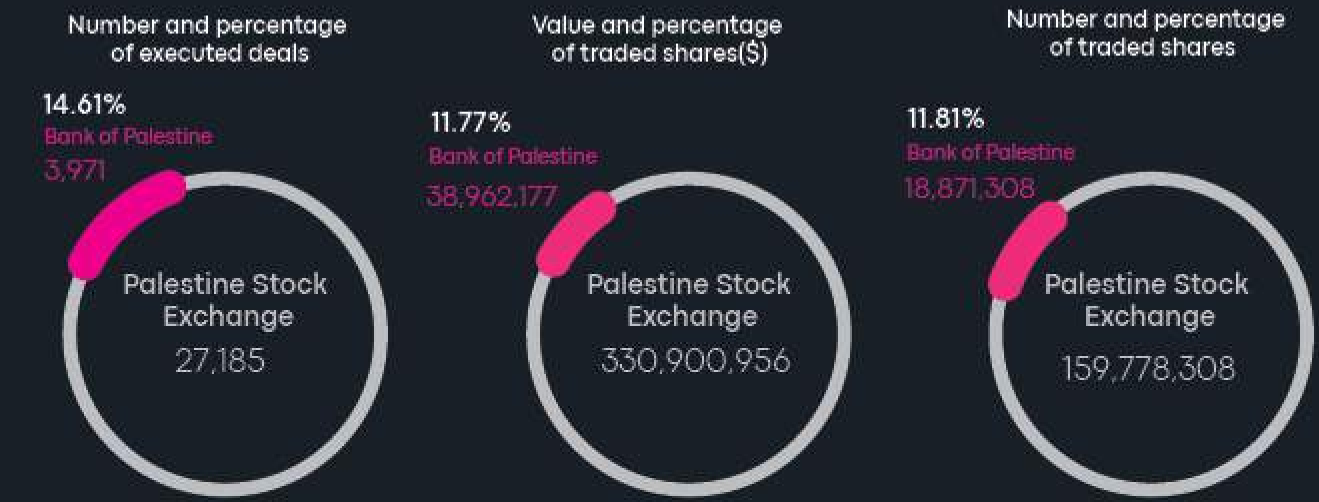




## Number of shareholders and percentage of their shareholding by nationality and sector as at the end of 2023

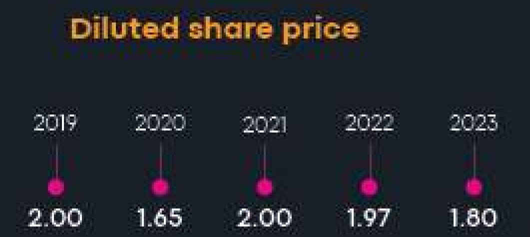




## Trading Activity for 2023



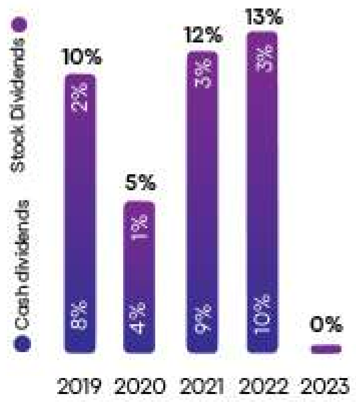




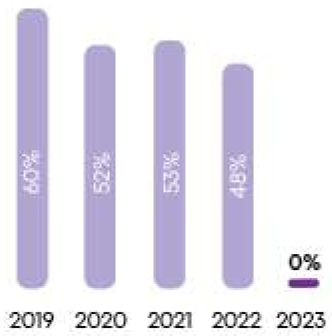


**Investor Relations and Shareholders' Information**

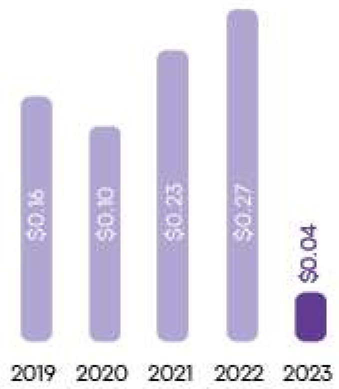
### Dividends distribution and their percentages of the Bank's capital




### Payout Ratio

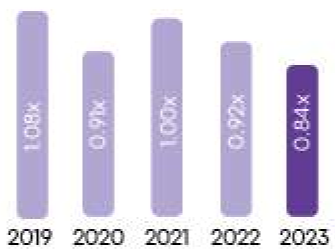



### Earnings Per Share




### Price to Earnings * Ratio (PE)


### Price to Book Value Ratio (P/BV)




*The bank recorded extra credit impairment provisions to cushion against any risk associated with the war on Gaza, which resulted in a decrease in net profit for the year 2023.





## AGM / EGM Agenda


### Ordinary Meeting Agenda and recommendations of Board of Directors:

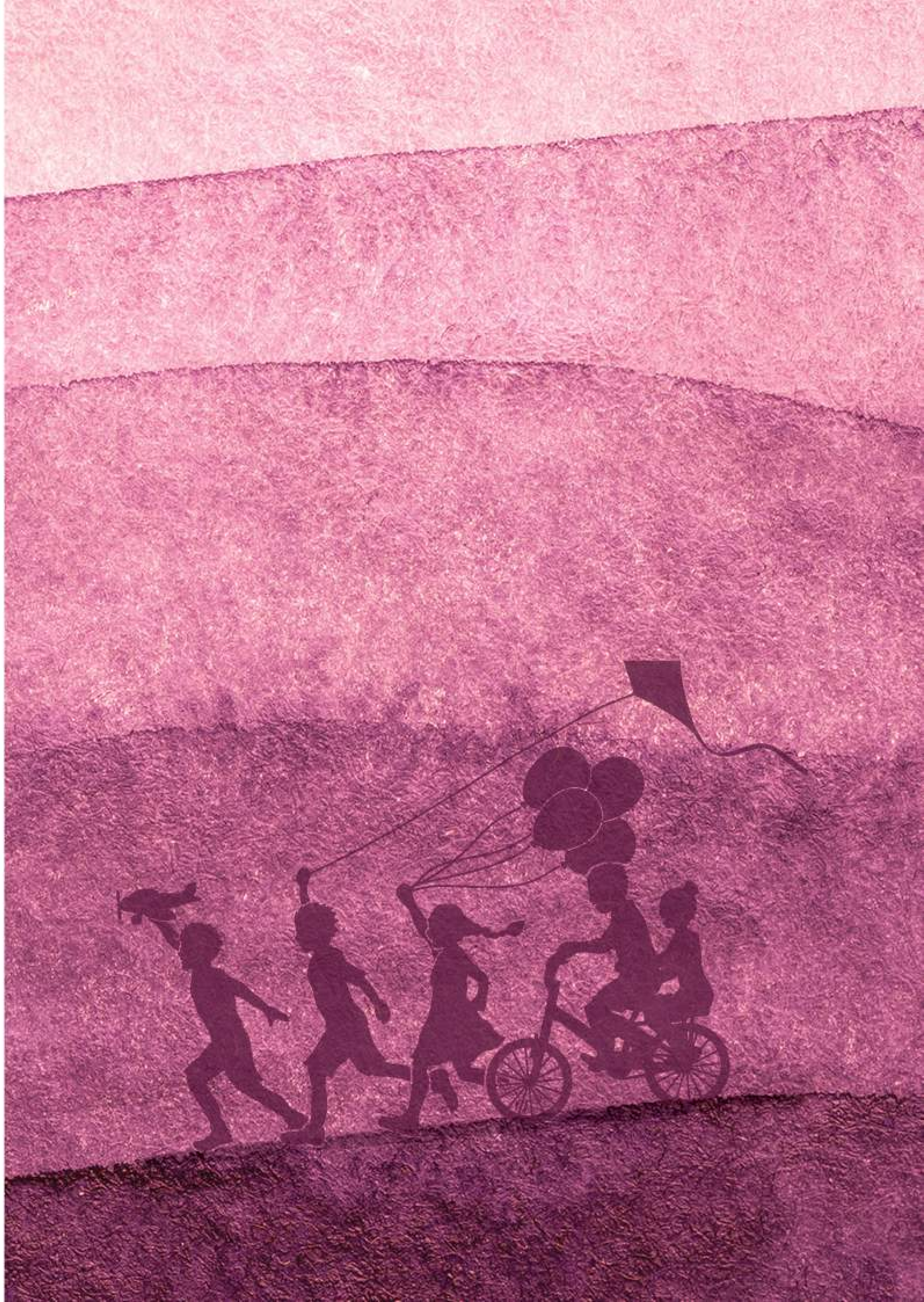
- Presenting, discussing and approving the Board of Directors' Report.
- Presenting the external auditor's report, discussing and endorsing the financial statements of the company for the financial year ended on 31/12/2023.
- Absolving the Chairman and Members of the Board of Directors from liability for the financial year ended on 31/12/2023.
- Appointing an external auditor for the financial year 2024 and appropriating their fees or authorizing the board to do so.
- Approving the remuneration and recommendation of the Board of Directors to pay a bonus for the members of the Board of Directors for the year 2023.

### Extraordinary Meeting Agenda and recommendations of Board of Directors:

- Approving the amendments to the Memorandum of Association and the Articles of Association in compliance with the Companies Law by Decree No 42 for the year 2021 and authorizing the Chairman of the board of Directors to sign them.
- Confirming the EGM's approved resolution resolved in 2023 which provides that: "Delegating the Board of Directors to increase the Bank's capital by a ceiling of USD$50 million to become USD$ 300 million instead of USD$250 million and authorizing the Board of Directors to decide on the appropriate tools and take the decision on how and when to achieve the capital increase and decide on all stages thereto."

# Strategic Review





**Bank of Palestine Strategy**

## The Bank`s Five-Year Strategy

**The Bank completed its Five-Year Strategy, which involved the following pillars:**

1

**Regional expansion**

2

**Digital transformation** expanding the digital footprint in services and branches

3

**Target sectors outside the banking sector** through PalPay

4

**Increase focus on the SME sector** that needs financing to face challenges

5

**Enhance retail services** by dividing them into segments and following up on them by specialized staff.



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# Regional Expansion

**Customer Service**

## Products and Services

The Treasury Department is dedicated to meeting the diverse needs of customers by offering distinctive and integrated services tailored to those needs, while also ensuring customers are well-informed about these services. Throughout 2023, the Treasury Department provided exceptional services and educated customers about its offerings through social media, radio broadcasts, and economic bulletins.

Key services of the Treasury Department include competitive foreign exchange rates, which saw a significant rise in profits in 2023. Bank of Palestine has taken a leading position in the Palestinian banking sector in terms of trading volume, market share, and digital transformation.

Bank of Palestine has maintained its leadership in change management and continuous development within the Treasury Department, focusing on building comprehensive and sustainable products that adhere to international standards. This aligns with the Board of Directors' vision and meets the aspirations of shareholders and customers.

By integrating a digital transformation strategy into all banking operations, the Treasury Department has introduced competitive rates on the Bank-e app. This service, available 24/7 with simple steps, has seen remarkable demand from customers who can now execute transactions through the app without needing to visit branches.

In terms of foreign investments, the Treasury Department achieved excellent returns by adopting a diversified investment policy with a broad geographical distribution. The Department balanced profits and risks effectively and is in the process of establishing sustainable deposits with international banks.

Throughout 2023, the Financial Institutions Department, serving as the liaison between the Bank's internal operations and external banks, built new relationships with several international banks within its global correspondent network. These efforts have enhanced the Bank's global presence, aligned it with global best practices, and resulted in several awards from international banks for excellence in treasury management and financial transactions.

## Sustainability and Green Bonds

The Treasury Department is committed to making a positive impact on social and humanitarian levels, contributing to the foundations of an effective and inclusive society. In line with this commitment, the Department adheres to sustainability principles and practices. To invest in environmentally friendly projects, we have significantly reduced paper usage by transitioning to electronic functions and have incorporated green bonds into our investment portfolio.

## Custodian Bank Services

Bank of Palestine is licensed by the Palestinian Capital Market Authority and the Palestine Exchange to act as a custodian for both local and foreign investors in Palestine. Key services provided include protecting investors and meeting their needs with necessary tools, wherever they are located, receiving dividends due on customer securities, organizing and maintaining accurate customer records, handling the sale and purchase of securities on behalf of customers, including receiving sale proceeds and paying for purchased securities, sending periodic reports to customers with detailed information about their portfolios and cash accounts, informing customers about actions taken by securities issuers related to interest, dividends, and equity rights, attending company general assemblies on behalf of customers and participating in the voting process, and updating customers about new company procedures. The Treasury Department continues to achieve high performance levels, serving customers and the Palestinian community, and maintaining the Bank's leading position in the Palestinian banking sector. This supports our efforts to achieve comprehensive sustainable development goals.



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## Operations Management

The Operations Department continued to implement the Bank's strategy to achieve digital banking transformation and provide the finest digital banking services that meet the needs of customers faster, easier and with high accuracy. It developed a strategic plan in collaboration with the various Bank departments, which aims to develop and re-engineer processes and complete the centralization of all operations in the branches. Key milestones for 2023 include the following:

- Improved check clearing processes, which contributed to enhancing the quality of customer service, thus saving time and effort, reducing the number of employees, and minimizing operational risks. The results of the project will be visible in 2024.
- Enhanced outgoing transfer processes and mechanisms for issuing them by branches and/or directly by customers, thus saving time and effort, reduce the number of employees, and improve the quality of service provided to customers. The results of the project will be visible in 2024.
- Developed and re-engineered several work procedures to improve the quality of service provided to customers.
- The completion of the electronic archiving project and the construction of a centralized archive headquarters, which included archiving the forms and documents of all branches electronically and effectively, contributing significantly to the preservation of documents in a safer and less risky manner.

## Sustainability at Bank of Palestine

Bank of Palestine has emerged as a leader in sustainability practices within the Palestinian banking sector. Our focus is on promoting sustainability principles across economic, social, and governance aspects, adopting a comprehensive strategy that underscores our commitment to transparency in all sustainability-related criteria and indicators.

Aligned with our values and vision for sustainability, we integrate sustainability approaches into all operations. We direct our core business activities towards achieving sustainable economic development by offering world-class banking products and services. Our commitment to innovation ensures that our products and services are accessible to marginalized and vulnerable groups, particularly women, youth, and those in remote areas, enabling these segments to benefit from our comprehensive range of services.

Our comprehensive sustainability strategy is developed in line with global standards and principles, reflecting our dedication to creating shared value that integrates the main pillars of sustainability: Governance, Environment, and Society.


## The Pillars of Sustainability at Bank of Palestine

Our Sustainability Strategy is based on the following five pillars:

1. Sustainability governance within the Bank.

2. Creating shared value.

3. Environmental stewardship and responsibility.

4. Human resource management.

5. Social investments.





## Sustainability Governance

Bank of Palestine is committed to institutionalizing and mainstreaming sustainability principles across all its buildings and operations, and has taken several steps and actions to promote sustainability, including:

Steps to enhance the Bank's sustainability approach:

1. Board-Level Sustainability Committee:

Establishment of a Sustainable banking Department.

2. Release the first sustainability report according to the Global Reporting Initiative (GRI) standards.

3. Develop a comprehensive sustainability strategy.

4. Monitor the Bank's environmental performance.

5. Stakeholders engagement.

## Stakeholder Engagement

Bank of Palestine focused on engaging stakeholders in developing its sustainability strategy to improve its sustainability performance in line with their aspirations.


## Environmental Sustainability

Bank of Palestine paid close attention to the environmental aspect, considering it is an important pillar of sustainability. The Bank promoted environmental sustainability by preserving natural resources and reducing their depletion by minimizing the solid waste generated by the Bank's various internal operations. It also endeavors to monitor and disclose its environmental footprint through sustainability report's in accordance with the Global Reporting Initiative (GRI) standards.

Stemming from its belief in achieving sustainability principles internally and externally, the Bank is in the process of developing an environmental and social system (ESMS) to monitor the environmental impact of its portfolio and track the environmental and social impact of the various loans and facilities granted.

In a related context, the Bank has taken several internal and external steps and initiatives to enhance environmental sustainability, including:

1. Holding the first conference on the risks of climate change and the role of the financial sector in reducing them.

2. Becoming a member in international organizations related to sustainable finance, such as the United National Environment Programme Finance Initiative (UNEP FI).

3. Implementing recycling projects (paper recycling, e-waste, and billboards).

4. Donating fixed assets.

5. Reduce the use of plastic consumption in the Bank.

6. Support several environmental initiatives in cooperation with various partners.

7. Focus on investment in green and renewable energy projects.

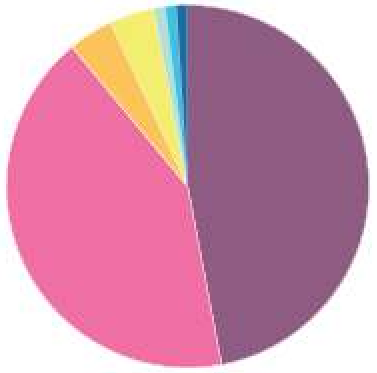
## Social Sustainability

In 2023, Bank of Palestine sustained its commitment to economic and social progress by allocating a portion of its annual profits to support developmental projects and initiatives, as part of its Corporate Social Responsibility. Upholding values of governance, transparency, and sustainable community impact, the Bank partnered with local and international organizations to bolster various sectors, with a primary focus on education, environmental protection, entrepreneurship, culture, sports, and predominantly, humanitarian and health initiatives.

### Our Approach to Sustainability

With the aim of reaching all segments of society, including women, children, youth, and persons with disabilities, the Bank is dedicated to promoting financial inclusion. Our initiatives span across all Palestinian governorates, underscoring our dedication as a financial instit ... and development.

Share of cont ... egy:



- Humanitarian Interventions 47%
- Health 42%
- Education and Entrepreneurship 4%
- The Environment 4%
- Culture and the Arts 1%
- Sports 1%
- Economic Development and Empowerment 1%

## Humanitarian Interventions

The humanitarian interventions sector received the largest share of Bank of Palestine's CSR interventions, which were implemented inside and outside the country. Several programs, projects and partnerships were established with charitable and community organizations providing care for orphans, children, persons with disabilities and social cases:

- Providing food aid to 17,450 beneficiaries during the month of Ramadan in partnership with the World Food Programme.
- Providing humanitarian and relief aid to our people in the Gaza Strip, including:
- Food parcels and potable water to 40,000 displaced persons.
- Winter clothing to 6,000 displaced persons.
- Financial assistance to 386 beneficiaries who receive healthcare at hospitals in the West Bank, Jerusalem and Jordan.
- Hot meals to 19,000 beneficiaries.
- 600 health packages to displaced persons.
- Entertainment activities and psychological support for 7,000 women and children in shelters.

**Additional Partnerships**

- Support for earthquake victims in Syria and Turkey.
- Support for tornado victims in Libya.

**Key Partners in Humanitarian Interventions**

- The World Food Programme (WFP)
- The Welfare Association – Al Taawon
- Global Communities
- The Palestinian Red Crescent Society
- Nafs for Empowerment

**Relief interventions in the Gaza Strip until the end of 2023**

| | | |
|---|---|---|
| 567,000 | 324,884 | 150,000 |
| Food parcels | Hot meals | Winter clothing |
| 50,000 | 10,000 | 38,225 |
| Financial assistance for the sick | Support sessions for women and children | Health packages |

**Total 1,140,109 USD**





## Health

The Bank recognizes the importance of the health sector in sustaining the lives of citizens. During 2023, the Bank continued to support this sector through the provision of healthcare and medical services that will ensure a decent life for the Palestinian people.

- Donating medical equipment to several health centers and hospitals in various cities in the West Bank.
- Providing medical equipment for the Palestine Diabetic Foot Center in Gaza City.

**Key Partners in the Health Sector**

- Augusta Victoria Hospital
- The Palestine Diabetic Foot Center

## Education and Entrepreneurship

Education is the real wealth for Palestine and its youth for building a prosperous future, and Bank of Palestine believes that investment in education is considered the first step towards building a sustainable economy for the Palestinian society.

- The Bank provided support for the 12th Model United Nations Conference, in which 462 students participated.
- Stemming from its belief in the importance of providing students a rich educational and training experience, the Bank provided support for the YouthCode educational program, which featured the participation of 50 students.
- For the 8th year in a row, the Bank continued to support the Wajd program for orphans of the 2014 war. So far, 1,305 individuals benefited from educational services, 148 individuals were enrolled in higher education institutions, 20 youth joined the vocational training program, 78 job opportunities were provided, and 134 individuals benefited from medical and health services.
- The Bank provided support for the graduation ceremony of the sixth cohort of Al Israr School at the August Victoria Hospital and honored 27 students.

**Additional Partnerships**

- Support for the doctorate grant program with the Arab American University.
- Support for the activities of Injaz during 2023.
- Support for the Hand in Hand workshop to provide student grants at Birzeit University.

**Key Partners in the Education and Entrepreneurship Sector**

1. Amideast
2. The Arab American University
3. Friends of Birzeit University
4. Injaz Palestine
5. Ramallah Friends School

Our Approach to Sustainability

## The Environment

During 2023, Bank of Palestine continued its support for environmental projects and initiatives in various sectors and governorates across Palestine to promote the preservation and sustainability of natural resources. The Bank also implemented eco-friendly practices internally, including the recycling of paper and billboards. These initiatives stem from the Bank's efforts to reduce it's environmental footprint and raise the awareness of its employees about the importance of protecting the environment.

- During the 9th Palestine International Marathon, the Bank launched a campaign entitled "Plant for the Future of Palestine" with an aim to encourage planting trees, during which 1,500 trees were planted.
- Providing support for the Ecoseed Challenge and environmental awareness, which aims to find solutions for environmental problems in Palestine. The activity featured 42 participants who presented 17 environmental concepts and solutions.
- Support for the environmental camp "Zero Waste", which aims to raise environmental awareness, featuring the participation of 30 beneficiaries.
- The Bank supported the Climate Change Hackathon, which featured the participation of 80 youths, with an aim to encourage them to come up with innovative and creative ideas that contribute to finding solutions for addressing and mitigating the impacts of climate change.
- The Bank supported 5 teachers from Palestine who participated in the Climate Change program at the Institute for Higher Education at Harvard University.
- In cooperation with Abdel Mohsin Qattan Foundation, Bank of Palestine supported environmental activities at the Qattan Center in Gaza.

**Additional Partnerships**

- Support for the Ramallah Municipality environmental projects.
- Creation of a pond aquaponics system at Ramallah Friends School.

**Key Partners in the Environmental Sector**

1. The World Food Programme
2. Institute for Higher Education at Harvard University
3. Ramallah Municipality
4. Abdel Mohsin Qattan Foundation
5. The Palestinian Council for Green Buildings






## Culture and the Arts

The cultural sector plays an important role in the advancement and development of society, encouraging progress in various scientific, intellectual, and literary fields. This sector is considered one of the pillars of Palestinian identity and a form of interaction among the people to preserve the heritage of their ancestors.

- The Bank provided support for cultural activities at Riwaq - Center for Architectural Conservation during 2023.
- Support for the Palestine International Book Fair 2023, which involved 390 publishing houses, included 70 events, and attracted 250,000 visitors.


**Additional Partnerships**

- Support for the activities of the Palestinian Museum during 2023.
- Support for the activities of El Funoun Palestinian Popular Dance Troupe during 2023.
- Support for the activities of the French Institute in Gaza during 2023.

**Key Partners in the Culture and Arts Sector**

1. The Ministry of Culture
2. El Funoun Palestinian Popular Dance Troupe
3. The French Institute
4. Riwaq - Center for Architectural Conservation
5. The Palestinian Museum

## Sports

The bank continued to provide its support and sponsorship for the sports sector, including federations and sporting events, due to the significant impact this sector has on the development of society and encouraging a healthy and active lifestyle.

- In line with its commitment to promoting a sports-oriented and healthy lifestyle within the community, the Bank sponsored the 9th Palestine International Marathon, organized in Bethlehem with the participation of 10,000 runners and international participants from 93 countries.
- To ensure the sustainability of water sports, Bank of Palestine supported the activities of the Palestinian Sailing and Rowing Federation in Gaza for the third consecutive year.
- The Bank supported the participation of the Palestinian Special Olympics in the Special Olympics World Games in Berlin, featuring 40 participants.
- To encourage sports, particularly among girls, and promote a healthy lifestyle, Bank of Palestine established a skating rink at the Inash Al Usra Association.

**Additional Partnerships**

- The Bank supported sports activities of the Palestinian Paralympic Committee to encourage sports for persons with disabilities.

**Key Partners in the Sports Sector**

1. The Higher Council for Youth and Sports
2. The Palestinian Sailing and Rowing Federation

Our Approach to Sustainability

## Development and Economic Empowerment

Persons with disabilities became a focal point in the Bank's strategy. The Bank supported activities aimed at encouraging this segment to participate actively in various social and economic sectors, contributing to local economic development and community growth.

- The Bank supported an agricultural training program for children with disabilities in partnership with the Yasmeen Charitable Society, featuring the participation of 50 students.
- The Bank supplied medical devices for providing physical and occupational therapy to persons with disabilities in partnership with the Early Intervention Association for Children with Disabilities.

**Key Partners in the Development and Economic Empowerment Sector**

1. Yasmeen Charitable Society
2. Early Intervention Association for Children with Disabilities

## Financial Inclusion

Aligned with its commitment to sustainability, Bank of Palestine is dedicated to establishing the principle of financial inclusion through tailored programs aimed at diverse segments of society. These initiatives target women, youth, persons with disabilities, and small business owners. Leveraging partnerships with local and international institutions, the Bank has implemented a series of activities and training programs.

Since 2014, these efforts have benefited over 22,800 individuals through the organization of 1,235 events and meetings. In 2023 alone, 1,690 individuals participated in 80 events and meetings, highlighting the Bank's ongoing commitment to fostering financial inclusion and empowering communities.

**From 2014 to 2023: 22,800 individuals – 1,235 Training sessions and Webinars**


### Activities and Programs during 2023

The Bank continued to implement the "Meeting with Bank of Palestine" banking awareness program, organizing 47 banking awareness sessions attended by 1,084 participants, including 896 women and entrepreneurs, to help enhance their proper banking knowledge. During these sessions, the Bank ensured that the educational material and presentation style were tailored to the targeted audience financial needs.

In collaboration with the International Finance Corporation (IFC), the Businesswomen's Forum, and Ernst & Young, the seventh cohort of the Felestineya Mini-MBA business management program was launched, and the fifth and sixth cohorts were graduated





in a grand ceremony. The program targeted a group of leading businesswomen from various economic sectors through intensive training workshops aimed at enhancing their skills and increasing their capabilities in business management and decision-making in various fields, including strategic and financial planning, marketing, and human resources management.

**Since 2016 – 6 cohorts – 186 Leading female business - owner has graduated**


In partnership with the European Bank for Reconstruction and Development (EBRD), a series of intensive online courses on financial management during crises were conducted, targeting 17 businesswomen. Additionally, courses on transitioning to digital technology were organized in two batches with 50 participants. Various training sessions were also held, including more than 15 training sessions, in collaboration with program partners such as the Ministry of National Economy, the Middle East Investment Initiative (MEII), and the "Mostadam" program.

### Special Training for Project Financial Crisis Management

In response to the current crisis affecting our country, which has had a direct negative impact on many small and medium-sized women-owned businesses, the Felestineya program, in collaboration with the global company Ernst & Young (E&Y), held a training workshop titled "Fiinancial Management in Times of Crisis," providing women entrepreneurs with a set of steps and solutions that can be adopted to overcome crises.

**Case Study**

"Bank of Palestine – Felestineya Program, a holistic approach to financial inclusion for women in Palestine" is the title of a case study conducted by UN Women – Palestine in 2023, which addressed Bank of Palestine's internal and external practices towards women under the umbrella of the Felestineya Program.

Our Digital Strategy

# Digital Transformation at Bank of Palestine

Bank of Palestine is realizing its digital vision by staying at the forefront of digital innovation to ensure the sustainability of its operations, particularly digital services. These services have become an integral part of modern banking, heavily relied upon by many of the Bank's customers, especially under the challenging circumstances and events endured by the Palestinian people.

Customers have increasingly relied on electronic services to conduct various financial transactions without needing to visit branches, including:

1. Adding beneficiaries on the Banki application to send them financial transfers.

2. Reactivating accounts.

3. Monitoring loan repayments and card transactions through the Bank-e application, along with other services such as bill payments, checkbook requests, and balance recharges.

Given the increasing demand and reliance on digital services, the Digital Transformation Department is committed to continuously developing electronic services. This enhances the digital financial system at Bank of Palestine and contributes to providing distinguished electronic services that meet the diverse needs of customers easily and securely, no matter where they are, without the need to visit the Bank's branches.

## Achievements in Digital Transformation during 2023

In line with enhancing the Bank's digitization strategy and expanding the user base of electronic services, the contactless payment service Bank-e Pay was launched using Android smart devices. This service facilitates easy and secure payment and purchase transactions at stores, shops, and other places that accept contactless payments.

In addition to improving customer services, the digitization strategy supports the Bank's efforts to reduce the consumption of natural resources, contributing to environmental sustainability. Therefore, the Bank introduced a new channel for submitting complaints using a QR code, allowing customers to scan the code and submit a complaint or suggestion. These are automatically followed up by the relevant department within the Bank.

New versions of the Bank-e application were launched, featuring numerous updates and improvements, including a mechanism for logging into the Banki application using a personal ID number or account number. The application now sends an activation code directly when the app is deleted and reinstalled, eliminating the need to contact the Bank or visit one of its branches. The updates also include the ability to view details of current and completed loans and card facilities, and the customer's profile displaying their data.

The Apple Pay service was launched, enabling customers who own Apple devices to link Bank of Palestine Visa cards with the Apple Wallet available on their devices.

The SoftPOS application was launched, transforming smart devices into terminals for accepting various digital payments through cards, e-wallets, QR code payments, and other electronic payment methods using the NFC feature supported by smart devices. This service allows merchants to receive payments without using traditional point-of-sale devices, relying solely on their smartphones. This service also boasts high security for all payments through the security levels provided by Visa and Mastercard.

SoftPOS  Pay  Bank-e Pay



Overview - Corporate Governance - Strategic Review - Operational Review - Bank of Palestine Group - Financial Statements

# 2023 Digital Indicators


The number of subscribers to the Bank-e service reached 478,000, with an annual growth rate of 29.8%

The number of users of the banking package reached 227,000, with an annual growth rate of 23.06%

Banking transactions through our channels totaled 6.03 million transactions, with a growth rate of 14.07%, valued at USD 2.77 billion, representing an annual growth rate of 34.59%

## E-Commerce Payment Gateway

Many features have been provided for the E-Commerce payment gateway, a service that facilitates business owners in collecting their sales and receiving funds on their business websites by accepting Visa and Mastercard payments.

### Features of Bank of Palestine's E-Commerce Payment Gateway

- High security using 3D Secure technology.
- Acceptance of all local and international cards issued by Visa and Mastercard.
- Instant transaction reports through customer identification and direct tracking of their transactions via the system.
- Receiving funds in multiple currencies.
- Easy technical integration with the E-Commerce gateway on the Bank's systems.
- Providing integration with popular e-commerce platforms such as WooCommerce, Magento, OpenCart, and others.

## Our Investors and Partners

For decades, Bank of Palestine has believed in the importance of building strong relationships with local, regional, and global development institutions. Over the past years, the Bank has entered into cooperation agreements with numerous entities, including the International Finance Corporation (IFC), the French Development Agency (AFD), the Arab Fund for Economic and Social Development, the KfW Development Bank, and the Islamic Development Bank (ISDB). In 2023, collaboration expanded with financial institutions dedicated to development, aligning with our Group's strategies in financial inclusion, sustainability, governance, digitization, and economic support.

In 2023, efforts were made to enhance and capitalize on these agreements by signing a partnership with the Japan International Cooperation Agency (JICA) and renewing agreements with European development banks to provide loans aimed at encouraging lending to small and medium-sized enterprises (SMEs), strengthening the Bank's financial resilience to face challenges, and allocating financial support to businesswomen in the West Bank and Gaza Strip. This contributes to achieving the United Nations Sustainable Development Goals (SDGs) in areas such as financial inclusion for women and youth, environmental protection, natural resource conservation, and economic growth.

- Signing an agreement with Proparco, the investment arm of the French Development Agency (AFD), with funding from the European Union. The agreement involves renewing support and financing for SMEs through the ARIZ MENA portfolio, valued at USD 2.9 million. This is the fifth contribution by the AFD through Proparco to this project, which aims to have a direct impact on economic and social development, empowering small, medium, and green enterprises and startups less than three years old to face challenges and remain resilient under the difficult circumstances in Palestine.
- Signing an agreement with the Japan International Cooperation Agency (JICA) to invest USD 30 million in Bank of Palestine's Additional Tier 1 Capital base. This investment is the first of its kind implemented by JICA in Palestine and worldwide. It aims to enhance the Bank's financial resilience, enabling it to face challenges and increase its capacity to finance SMEs.
- Signing a subordinated loan agreement with the Arab Fund for Economic and Social Development to obtain a subordinated loan of USD 30 million to finance and support SMEs, contributing to advancing the Palestinian economy under the challenging conditions resulting from the war on Gaza.
- The bank joined CitiGroup's Sustainable Deposits Solution, becoming the first bank in Palestine and the Middle East to join this program.





# Together, we achieve the Sustainable Development Goals

| | |
|---|---|
| The European Bank for Reconstruction and Development (EBRD) | • Loan for supporting SMEs and businesswomen in the amount of USD 15 million.<br>• Agreement to finance international trade to promote imports and exports and expand the banks network, in the amount of USD 10 million. |
| The Japan International Cooperation Agency (JICA) | • Investment in Bank of Palestine's Additional Tier 1 Capital in the amount of USD 30 million to support small and medium sized organizations. |
| The International Finance Corporation (IFC) | • Subordinated loan in the amount of USD 75 million. |
| The Arab Fund for Economic and Social Development | • SME Loan in the amount of USD 30 million.<br>• Subordinated loan in the amount of USD 30 million to support SMEs. |
| PROPARCO | • A strategic shareholder owning 3.34% of BOP capital through FISEA.<br>• SUNREF I and II Green Loans in the amount of USD 40 million.<br>• Financing SMEs under the ARIZ guarantee in the amount of USD 50 million. |
| The European Investment Bank (EIB) | • Loan to support SMEs in the amount of USD 50 million.<br>• Guarantee agreement to finance SMEs, with coverage amount of USD 8.6 million. |
| KfW Development Bank | • Agreement to finance SMEs. |
| The Islamic Development Bank (ISDB) | • The Murabaha Program for financing SMEs in the amount of USD 10 million. |

17 PARTNERSHIPS FOR THE GOALS · 16 PEACE, JUSTICE AND STRONG INSTITUTIONS · 13 CLIMATE ACTION · 11 SUSTAINABLE CITIES AND COMMUNITIES · 10 REDUCED INEQUALITIES · 8 DECENT WORK AND ECONOMIC GROWTH · 7 AFFORDABLE AND CLEAN ENERGY · 5 GENDER EQUALITY · 1 NO POVERTY

### International Relations and Strategic Engagements

Bank of Palestine continues to take steady steps towards enhancing partnerships with international development institutions locally and globally, focusing on strengthening positive relationships and achieving progress and growth, especially considering the significant challenges witnessed by our country this year, including the ongoing war in Gaza and its ramifications. The Bank believes in the importance of maintaining strong institutional ties locally, regionally, and internationally, focusing on shared values and vision in promoting the principle of sustainability.

The Bank seeks to expand its institutional relationships to support development, focusing on diverse areas such as financial inclusion, women's economic empowerment, supporting entrepreneurship and youth initiatives, supporting persons with disabilities, and other fields, based on the adopted strategy and national priorities, with a focus on small and medium-sized projects that constitute 90% of the Palestinian economy.

International relations and institutional engagements are integral parts of the Bank's vision, as continuous exchange with economic development organizations and institutions at regional and global levels is emphasized. The Bank's efforts are contextualized within the framework of enhancing international strategic relations, with a focus on supporting essential humanitarian needs, particularly in light of the war on Gaza and its repercussions.

Partnerships have a significant standing on the Bank's agenda, encompassing collaboration with the European Union Institutions Program, the United Nations, and participation in events organized by the Global Alliance of Banks Committed to Values. Additionally, the Bank's participation in the COP28 Climate Conference in Dubai underscores its commitment to enhancing networking with international and regional institutions, providing necessary resources to support innovation, fostering entrepreneurship, and enhancing the entrepreneurial environment. This has led to the creation of new job opportunities and effective contribution to the Palestinian economy and sustainable development.

In the context of relations with international financial institutions, the Bank attaches great importance to providing competitive banking services and participating in various financing projects for economic sectors. Moreover, the Bank enhances cooperation with external institutions to provide necessary funding and reinforce positive impact on daily and humanitarian life, especially following significant events in the region in 2023, such as the war on Gaza.

It is also worth noting that Bank of Palestine has diligently worked to increase investments through hosting a business delegation to explore and closely understand the Bank's operations in the West Bank and the Gaza Strip in the middle of the year, aiming to enhance investments with positive impacts.

Seeing tangible results of these investments is crucial and forms an essential part of our strategy. We are striving to attract more investors to become part of the Bank's family, stemming from our belief that achieving positive impact starts with a deep understanding and vision of banking and investment operations in our region. This vision constitutes an integral part of our commitment to directing investments towards areas that promote sustainable development and contribute to the development of the communities we serve. Encouraging investors to realize the importance of their positive impact reflects our desire to build





partnerships based on trust and mutual understanding, where they become true partners in our journey towards sustainable development and shared prosperity.

Furthermore, Bank of Palestine takes pride in its leading role in sponsoring culture and promoting cultural exchange. Throughout the year, the Bank was the official sponsor of events that were held at the Arab World Institute in Paris, showcasing what Palestine offers to the world. This support reflects a deep trust that Bank of Palestine places in culture and sharing Palestine's story with the world, emphasizing the importance of highlighting Palestinian contributions in various fields and promoting cultural understanding.

## Enhancing Cooperation and Support during the calamitous situation in Gaza

Bank of Palestine has the financial capacity and flexibility to address challenges and crises and has taken on the responsibility of being the main banking entity for most international organizations operating in Palestine. Amidst the difficult conditions in the Gaza Stirp, the Bank responded to the needs of international organizations by facilitating the transfer of all banking operations for international and humanitarian institutions active in Gaza through the West Bank.

Our focus throughout the year has been on providing banking services to all our customers working in international institutions and offering the minimum necessary services despite the difficult conditions. In collaboration with its subsidiary PALPAY, the Bank worked to connect all its customers and international partners working with international organizations to PALPAY, providing various payment methods for both employees and beneficiaries to facilitate their access to cash and meet their needs. This support highlights the Bank's significant role during these challenging times to facilitate the humanitarian and essential needs of projects and activities implemented by international organizations.

In collaboration with international organizations involved in humanitarian work and the provision of support in Gaza, the Bank joined efforts to cooperate in humanitarian relief projects. These efforts have been in close coordination with the Sustainability and Social Responsibility Department to enhance cooperation and support the efforts of institutions working in the Gaza Strip.

Through close cooperation with its Sustainability and Social Responsibility Department, the Bank joined forces with the relevant international organizations to help in the provision of humanitarian relief projects in Gaza and support the efforts of institutions working there.

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# Operational Review

**Business Banking**

## Sustainable Finance: A Core Component of Our Sustainability Approach

At Bank of Palestine, we have fully embraced sustainable finance, recognizing its pivotal role in sustainable development and its alignment with the increasing international emphasis on this sector. By following established guidelines for financial institutions, we aim to be key contributors to achieving developmental goals. This commitment is especially vital given the growing challenges we face and our belief in sustainable finance as a driver for the continuity and growth of economic sectors.

Our operations are guided by the three core principles of sustainability: Environmental, Social, and Governance (ESG). We adhere to fundamental guidelines related to sustainable finance and integrate these sustainability factors into our governance framework. This ensures that our investment and business decisions reflect professional practices that support these three sustainability pillars.

To demonstrate our dedication, we implement systems and activities that benefit the environment and serve the Palestinian community. A prime example of this commitment is the launch of the SUNREF II program, our second green loan initiative valued at USD 30 million. This program, developed in partnership with PROPARCO, the European Union (EU), and the Palestinian Energy and Natural Resources Authority (PENRA), and implemented with the support of ESCOM and ECONOLER, underscores our steadfast policy to foster environmental sustainability and community service.

The following table illustrates Bank of Palestine's journey in the provision of green financing through the SUNREF agreements for SMEs and individuals:

| Year | Value of Financing in USD | Number of Funded Projects |
|---|---|---|
| 2018 | 1 | 81,596 |
| 2019 | 23 | 3,470,497 |
| 2020 | 73 | 5,150,233 |
| 2021 | 13 | 4,163,383 |
| 2022 | 30 | 14,613,610 |
| 2023 | 13 | 4,468,322 |
| **Total** | **153** | **$31,947,641** |

Based on the table above, 13 projects were financed during 2023 with a total value of USD 4.46 million. Over the past year, multiple workshops and training sessions were conducted on renewable energy financing and energy efficiency projects, targeting credit analysts and credit and business teams with the aim of enhancing the skillset in analyzing environmental projects.

Aligned with our strategic vision to continually enhance and expand knowledge among all credit stakeholders, especially our Corporate Business teams who interact directly with the public, we aim to develop the professional skills necessary to foster partnership with our customers and achieve effective alignment among all credit process stakeholders. To this end, we organized and implemented specialized training courses in the past year, focusing on credit and financial analysis.





These courses covered both the scientific aspects of financial and credit analysis tools and commercial finance products, as well as the practical aspects of identifying customer credit needs, presenting and providing tailored financial and credit services, and designing financing structures that meet those needs. This approach ensures the efficiency of our products, the financial and credit soundness of our customers, and reinforces the principle of partnership with the Bank to achieve sustainability in our dealings.

The Bank also continued to develop and update the models and tools used in financial and credit analysis, enhancing the inclusivity, effectiveness, efficiency, and reliability of our credit analysis outcomes. This supports the credit decision-making process, reduces processing time for customer requests, and maintains the highest levels of accuracy and comprehensive analysis of the necessary credit and financial information.

Bank of Palestine plays a significant role in redirecting investments towards sustainable technologies and projects that contribute to building an environmentally friendly economy and reducing carbon emissions. This commitment is rooted in our solid strategy to enhance sustainability principles across all banking operations and activities, aimed at preserving the environment and relying on renewable energy sources through our various subsidiaries and partnerships. We strive to make a positive impact on the environment, and our commitment to preserving environmental resources for future generations has become a guiding principle.

We are dedicated to adopting policies and procedures that protect the rights of borrowers, monitor creditworthiness, ensure transparency, and set maximum limits for microfinance for each customer. In 2023, these policies facilitated the financing of 332 microprojects through a sustainability loan program, totaling USD 29.9 million. Among these, 17 women-led projects were financed with a total value of USD 986,950 reaffirming our commitment to supporting and empowering women and encouraging their participation in the Palestinian market.

The table below illustrates the total loans granted through the Istidama loan program for micro, small, and medium-sized enterprise (332 projects), with a total amount of USD 29,983,727, as of the end of 2023:

| Gender | Number of Funded Projects | Total Amount Granted in USD |
|---|---|---|
| Females | 17 | 986,950 |
| Males | 295 | 26,945,652 |
| Companies | 14 | 1,968,000 |

As illustrated in the following table, the total loans granted through the Istidama loan program for micro-projects for persons with disabilities amounted to 98 projects, with a total amount of USD 716,300 USD, as of the end of 2023:

| Gender | Number of Funded Projects | Total Amount Granted in USD |
|---|---|---|
| Females | 24 | 174,000 |
| Males | 74 | 542,300 |

Bank of Palestine is taking concerted steps to provide financing for small and medium-sized enterprises (SMEs), which includes restructuring financial policies to align with the financial inclusion policy. Despite the challenges associated with financing SMEs, this type of financing will diversify the Bank's budgets and revenue sources in the long run.

The table below illustrates the total loans granted through the sustainability loan program for small and medium-sized projects in Jerusalem (7 projects), with a portfolio amounting to USD 63,500, as of the end of 2023:

| Number of Beneficiary Projects | Total Amount Granted in USD |
|---|---|
| 7 | 63,500 |

**Business Banking**

The table below illustrates the total loans granted through the Istidama microfinance program for small and medium-sized enterprise (591 projects), with a portfolio amounting to USD 5,005 million, as of the end of 2023:

| Gender | Number of Projects Funded | Total Amount Granted in USD |
|---|---|---|
| Females | 494 | 4,195,550 |
| Males | 92 | 763,050 |
| Companies | 5 | 46,800 |

Small and medium-sized enterprise are effective agents of change in Palestine, particularly in their ability to increase employment rates and combat unemployment when provided with the appropriate environment to grow and prosper. Ensuring the continuity of jobs generated by SMEs and enhancing their capacity to generate more employment opportunities are essential aspect in supporting their sustainability and contributing to the overall development of Palestine. By the end of 2023, Bank of Palestine, through an agreement with the Arab Fund for Economic and Social Development, managed to preserve 1734 jobs (males: 1512, females: 222) and create 255 new jobs (males: 239, females: 16) under the umbrella of this program. The total financing from the Arab Fund amounted to USD 30 million for 280 small and medium-sized projects (11.15% of which were newly established projects).

According to statistics, Bank of Palestine has also been able to direct financing to small and medium-sized projects with low environmental and social risks, aligning with its vision to achieve sustainable finance.

Bank of Palestine is committed to its strategic vision of achieving sustainable economic and social development in Palestine, recognizing the necessity of fostering a sound environment for sustainable finance that ensures long-term impact. Achieving financial sustainability entails reducing banking transaction costs and providing high-quality services and products that meet customer needs, thereby ensuring the continuity of funding and the provision of more financial services.





## Large Companies and SMEs

Bank of Palestine plays a pioneering and pivotal role in supporting both the corporate sector and SMEs. We proactively design integrated banking services and products tailored to meet the needs of these sectors, thereby enhancing their capacity to confront diverse challenges and ensuring their continued growth and development. This, in turn, strengthens the entrepreneurship and innovation ecosystem in Palestine. Our efforts are rooted in the belief that this sector is strategically important for achieving sustainable economic development, particularly in boosting the Palestinian economy's resilience against the severe impacts of the conflict in the Gaza Strip.

In alignment with our vision to support this sector, we have launched various financial and incentive packages in collaboration with local and international partners, including the European Union, Proparco, the European Investment Bank, the European Bank for Reconstruction and Development, the Arab Fund for Economic and Social Development, and the Japan International Cooperation Agency. These packages and programs are designed to ensure the stability, continuity, and development of economic entities in Palestine, raise banking and financial awareness, and mitigate the effects of the war on Gaza and the constraints resulting from the global economic slowdown.

In addition to commercial and real estate financial services, we have introduced one of our most significant initiatives: a distinctive package of incentives and financial facilities with reduced interest rates. This initiative also includes grants under the SUNREF I and SUNREF II programs for green and sustainable financing, aligning with our strategic plan to support sustainable financing at the lowest costs.

Our strategic partnership with the business sector continues to grow and prosper year after year, thanks to the implementation of a comprehensive financing plan that encompasses advanced and diverse financial products and services for existing customers. We have also added new projects to our portfolio, including those focused on women and entrepreneurship. Our Corporate Business Management division provided financing totaling USD 1.3 billion to companies across all Palestinian cities and villages, including Jerusalem and its suburbs.

Targeting small and medium-sized enterprises (SMEs), which represent over 90% of economic activity in Palestine, our support for diverse economic projects helps create new job opportunities while maintaining existing ones, thus contributing to efforts to reduce unemployment levels.

| | 2022 | 2023 |
|---|---|---|
| SME's | **USD 642 million** | **USD 711 million** |

The promotion of diversified packages of programs directed towards small and medium-sized enterprises, whether in financing, electronic services, or banking operations, contributed to assisting over 20 economic sectors within this category in achieving significant growth, increasing sales volumes, and the number of employees.

In line with the Bank's vision to support and promote environmentally friendly projects through international projects and strategic partnerships, the Corporate Business Management also provided its services to ensure business sustainability through sustainable financing programs, which have witnessed significant growth in the past three years.

**Business Banking**

### Corporate Digital Services

Bank of Palestine continued to provide distinctive electronic services to the business sector, reflecting its strategic commitment to digital transformation and offering the latest digital applications that contribute to developing corporate sector customers and allowing them to carry out banking operations with ease. In this context, the Bank collaborated with PalPay company to provide merchants in all economic sectors with point-of-sale (POS) machines to enable them to complete business sales transactions without the need for cash, and at very competitive commissions.

In the past three years, the number of corporate sector merchants and SMEs who benefited from the POS service has witnessed significant growth (as indicated in the table below), in addition to the Bank's provision of products that enable the granting of loans and other distinctive banking services to merchants who have POS machines under special conditions.

:The table below illustrates the increase in the number of POS machines in the Palestinian market

**Number of POS Machines**

| 2022 | 2023 |
|---|---|
| 11,069 | 15,000 |

In terms of digital applications, the Corporate Business Management has been keen on continuing to develop the electronic platform for business owners, enabling them to access their bank accounts and carry out all banking services with ease and security, without the need to visit Bank branches.

### Post-Financing Follow Up

Our team of regional and account managers is committed to monitoring companies by conducting regular field visits to assess the situation on the ground after financing. This includes monitoring their sales volume, business plan execution, and where they stand vis-à-vis achieving their goals. The team also conducts an ongoing review of their accounts to ensure credit quality and prevent default.






**Retail Banking**

## Products Management

The Products Development Department made remarkable accomplishments during 2023 at the level of developing services and products that respond to the diverse needs of a wide range of Bank customers. The programs and products launched by the Bank included the appropriate tools that enabled customers to complete their banking and financial needs, especially during these exceptional circumstances.

### Retail Banking Services

In line with the Bank's vision and strategy to achieve sustainable development goals that have a positive impact on all stakeholders, several campaigns targeting a wide and diverse range of customers were launched. These campaigns included "Your 7*7 Car" campaign with unique features, and a campaign to encourage the purchase of energy-saving equipment in partnership with Akram Sbitany & Sons Company, and in collaboration with Proparco (the investment arm of the French Development Agency). Additionally, a partnership agreement was signed with AutoZone to promote loans for the purchase of electric and eco-friendly cars.

As part of its efforts to attract various segments, expand its customer base and offer distinguished products, the Bank launched a special package for VIP customer with new benefits and competitive rates

### Small Projects Department

As part of the Bank's commitment to providing products that contribute to the promotion of small projects to enhance their role, achieve sustainable economic growth and alleviate unemployment and poverty, a range of products and programs were launched with an aim to empower owners of these small projects to continue and develop their ventures.

The programs launched during 2023 included:

1. Merchant package and campaign for POS payment card holders.
2. The commercial mortgage program.
3. Loans for fishermen in the Gaza Strip.
4. Several programs from the Palestinian Monetary Authority's Istidama Fund, including the "Start Now" program for financing small and micro-enterprises, programs for financing women's projects in marginalized areas, programs for financing projects managed by persons with disabilities, and loans for Jerusalem-based projects).

Bank of Palestine resumed its commitment to developing programs and activities aimed at empowering female entrepreneurs and businesswomen, enhancing their ability to manage, develop, and expand their projects, which contributes to encouraging female participation in economic development. To achieve this goal, Bank of Palestine, in collaboration with the Palestinian Monetary Authority, the Ministry of Labor, and the Palestinian Employment Fund, launched a program for women in marginalized areas, as well as the "Start Now" program. The Bank also continued to offer bundles for the Felestineya Program, with an aim to meet all the financial needs of women.

Furthermore, cooperation and networking were established with various entities, such as the Palestinian Monetary Authority, the Ministry of Labor, the Palestinian Employment Fund, women's associations, various social security institutions, and the Monshati and Tamwili platforms, to support and develop small and micro-enterprises.

### The Cards Department

During 2023, the Bank launched the Visa Infinite and Visa Platinum cards, with various and unique benefits. The Visa Infinite card is distinguished by its ceilings and features for cardholders, while Visa Platinum offers privileges and exclusive discounts, in addition to travel, entertainment, and online shopping benefits.

**Retail Banking**

Efforts were also directed towards enhancing the "Cashback" incentive system for Bank of Palestine cardholders. The Bank also signed a contract with Aramex for delivering cards to VIP customers wherever they are without the need to visit the bank. Work is underway to extend this service to other segments within the Bank's customer base, alongside continuous updates and development of the credit card issuance policy to increase this portfolio and enhance its growth.

## Digital Products Department

The Bank places great emphasis on developing digital services and products to always meet the needs of customers and wherever they are. The impact of this approach became evident through enabling customers to access electronic services despite the challenges and constraints that emerged during the last quarter of 2023, particularly in the Gaza Strip. The Bank provided continuous updates around the clock and worked with flexibly to ensure the continuity of services.

To continue its journey towards digital transformation, the bank launched Apple Pay for iPhone devices and Bank-e Pay for Android; payment services that enable customers to link their cards to the relevant systems on their mobile devices and make electronic payments, instead of carrying the actual cards.

New versions of the mobile banking application were launched with updates and improvements on the transfers and facilities services, including special updates aimed at improving the customer experience. Additionally, the Monetary Authority's Hukumati and E-Sadad payment services were added to fulfill bill-payment needs.
In line with its progress in developing digital payments, the Bank launched the SoftPOS application, which transforms smartphones into portable and low-cost point-of-sale (POS) devices. Furthermore, a technical integration service was launched for the "Cashier" systems in retail stores to transfer sales orders directly from their systems to Bank of Palestine's POS devices, thus providing an exceptional user experience and encouraging customers to favor BoP POS devices.


## Retail Relations Department

During 2023, the Bank was dedicated to completing all operations and structures to improve the quality of services provided and elevate the overall customer experience. To distinguish the banking services offered to its customers according to their classification and needs, Bank of Palestine merged the Diaspora and Premium customers departments in the VIP Customers Department, and appointed customer relationship managers to provide prompt and professional banking services.

The Premier division team works on attracting capital and businesspersons within the country, while the Diaspora division team focuses on attracting individuals, companies, and businesspersons abroad to provide them comprehensive banking, investment, and advisory services. This division also works on building bridges of communication with Palestinians within and outside the country, encouraging them to invest in Palestine.

In addition to providing banking and investment services and stemming from the Bank's belief in the importance of applying and adopting sustainability principles Bank-wide, the Retail Relations Department participates in supporting and promoting social responsibility programs through the provision of sponsorships and participation in Palestinian events locally and internationally. These activities aim not only to attract customers and introduce them to services offered by the Bank, but also to build the foundations that encourage them to invest in Palestinian society in the homeland.

This focus involved investing in the automation of many processes and enhancing digital channels and services to improve the level of service. As a result, electronic transactions grew significantly, and the Bank saw an increased uptake of electronic services by its customers, and incentive programs to encourage the use of these channels also had a positive impact. The Bank will continue to refine the skills of its staff to provide outstanding services to customers and intensify the promotion of electronic services.

**Retail Banking**

# The 2023 Marketing Strategy

The Marketing Department continues its efforts to enhance communication with customers and the public, aiming to solidify Bank of Palestine's presence in the market and raise awareness of its comprehensive range of banking and digital services and products. Throughout the reporting period, the Bank initiated several campaigns, introduced new services and products, and sponsored various initiatives and events across multiple media platforms, including traditional advertising and social media channels. These endeavors have effectively facilitated communication with existing customers while also reaching out to broader segments of the public, including prospective customers.

Aligned with the Bank's overarching vision and strategic direction, the Marketing Department has implemented a targeted marketing strategy throughout 2023, with a focus on achieving the following objectives:

- Staying abreast of advancements in advertising and customer communication techniques, ensuring the promotion of services in a manner that fosters engagement across social media platforms and facilitates effective communication with customers across all touchpoints.
- Introducing a series of banking services and loan products tailored to meet the diverse needs of customers and society at large.
- Launching marketing campaigns to familiarize customers with the advantages of new digital banking services, including electronic payment solutions via mobile devices, POS machine payments, and the SoftPOS app, which enables card payments through a merchant's mobile device. These services are designed to enhance the convenience and security of transactions for customers, merchants, and businesses alike.
- Conducting marketing and awareness campaigns to highlight the benefits and updates of the Bank-e app, encouraging customers to leverage its features to streamline their banking experience.
- Rolling out promotional campaigns targeting female entrepreneurs and business owners across Palestine, aimed at supporting their endeavors through tailored loan programs and initiatives.
- Sponsoring various marketing events and festivals across different governorates, actively engaging with attendees to introduce them to Bank of Palestine's diverse range of products and services.
- Participating in prize draw events held in different governorates, leveraging these opportunities to interact with the public and reinforce the Bank's presence.
- Launching awareness campaigns to educate customers on the various measures available to safeguard against electronic fraud risks.





## Key Marketing Campaigns Launched During 2023

The cars campaign


The biggest savings campaign


A financing program for fishermen in the Gaza Strip


An exclusive financing program for Jerusalem

(Loans for Jerusalem-based projects)

**Retail Banking**

The Bank-e Pay service for Android devices
(without using cards)


The Apple Pay service on iPhone
(without using cards)


The updated version of the Bank-e app with new features to facilitate banking transactions


A campaign to encourage using the Bank-e app




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A new bundle of bank cards


Campaign to reschedule re-payments during Ramadan and Eid


An exclusive service for merchants and customers to encourage them to use cards and BoP POS machines


The SoftPOS service for payments on the merchant's mobile

## Retail Banking

The commercial mortgage campaign to finance the purchase of various commercial spaces


A campaign in partnership with Sbitany and Sons Company for Easylife card installments on energy-saving electric devices





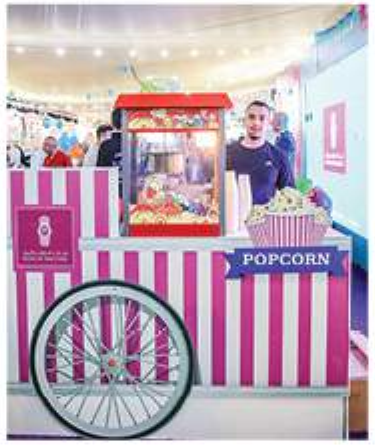

Campaign for the Felestineya Mini-MBA program


Financing projects for women in underserved areas in partnership with the Ministry of Labor


**Sponsorship of exhibitions, festivals and events that target all segments of society and promote the Bank's presence and services across Palestine**

Electronic services and diverse products, services and loans, with focus on Bank-e Rahhal, are promoted during various events, exhibitions and activities that are annually sponsored and supported by Bank of Palestine.


## Retail Banking







**Educating customers about electronic fraud stands as the paramount tool empowering them to safeguard against potential risks**

The Bank consistently educates its customers via its social media platforms on the significance of adhering to digital security measures, highlighting the potential risks associated with insufficient awareness of electronic fraud methods, while also promoting best practices for effectively combating such threats




**Engaging on every digital frontier, the Bank amplifies its presence through strategic campaigns across all social media platforms, leveraging an elite cadre of influencers to disseminate its message.**

Dedicated to nurturing familiarity with our brand, the Bank orchestrates ongoing awareness initiatives, disseminating our message and suite of services to customers, stakeholders, and the broader community. Moreover, we diligently spotlight the exclusivity of our banking offerings, endeavoring to connect with diverse populations across different regions by forging partnerships with select social media influencers.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**We remain accessible and responsive to our audience across all social media platforms**

# Bank of Palestine's Representative Office in Dubai

### Key Achievements during 2023

In line with Bank of Palestine's vision towards digital transformation and leveraging financial technology solutions to facilitate customer transactions and reduce banking transaction costs, the Representative Office in Dubai continued to offer diverse electronic services to customers through email and SMS, encouraging them to make use of digital banking services, especially internet banking and mobile banking. This contributed to a significant growth in deposits and transfers during 2023, totaling around USD 10 million, distributed across investments, deposits, and customer accounts.

In collaboration with the Investor Relations Department, the Representative Office also achieved remarkable results at the level of investor relations, by maintaining communication with existing investors and attracting new ones residing in the UAE. These efforts contributed to the growth in the number of resident shareholders in the UAE, representing 5.1% of the Bank's total shareholders. Moreover, the number of shares sold grew to 2.9 million, with a total value close to USD 5.9 million, and all transactions were conducted through the Bank's subsidiary company - Al Wasata Securities.

Our Representative Office in the UAE achieved record results during 2023 compared to previous years, as employees intensified their communication with customers, whether to open new accounts or update the data of existing accounts. This was done through the Bank's branches in Palestine, aiming to ensure continuity of communication with customers and to market the Bank's products, in addition to attracting deposits for individuals and institutions. The number of customers contacted exceeded 2,500, which significantly reflected on the number of new and updated accounts for current customers, with 265 accounts opened and updated for expatriates in the United Arab Emirates and the GCC countries.

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## Receiving Delegations and Networking

The Representative Office continued its coordination activities and reception of Palestinian business delegations and representatives from Bank of Palestine during their visits to the United Arab Emirates. It also facilitated networking between these delegations and the Representative Office's extensive network of relationships in the UAE. This included coordinating and hosting Mr. Hashim Shawa, Chairman of the Board of Directors of the Bank of Palestine Group, during multiple visits to the UAE. Meetings were conducted at the highest levels with businessmen and officials in the country, aimed at exploring avenues for mutual cooperation and expanding the Bank's presence beyond national borders.

Additionally, the Representative Office demonstrated interest in Palestinian startups entering the UAE market, in collaboration with sister companies within the Bank of Palestine Group, notably Intersect Innovation Hub and the Ibtikar Fund. The Office welcomed joint delegations comprising both startups and sister companies to offer assistance, facilitate networking, and enable participation in relevant events organized in the UAE, recognized as one of the most developed and supportive countries for startups in the region.

## Representing the Bank Locally and Regionally

In its ongoing commitment to bolstering Bank of Palestine's presence in the UAE, the Dubai Representative Office plays a pivotal role in representing the Bank at conferences, seminars, and events throughout the UAE. Its primary objective is to engage with attendees from various sectors, introducing them to the Bank's strategic vision, prospects, and notable achievements both domestically and internationally. This initiative serves to underscore the Bank's stability and active contribution to sustainable development in Palestine. Notable events where the Bank is represented include:

intersec
Intersec

Gulfood
Gulfood 2023

DUBAI FINTECH SUMMIT
Dubai FinTech Summit

seamless
Seamless Payments Middle East 2023

FUTURE SUSTAINABILITY FORUM
Future Sustainability Forum Dubai

COP28 UAE
COP28

ADFW
Abu Dhabi Finance Week

- AI Festival
- Abu Dhabi Economic Summit 2023

Situated in the Dubai International Financial Center (DIFC), Bank of Palestine's Representative Office is dedicated to solidifying and expanding the Bank's presence in the UAE and Gulf Cooperation Council (GCC) countries. This strategic move aligns with the Bank's overarching goal of cultivating regional relationships and fostering connections with Palestinians residing in Gulf Arab states. The Representative Office, established in August 2015 as a Foreign Recognized Company, engages in operational activity for a representative office, officially opened its doors in April 2016.



Our Employees

# Human Resources Management

The human element is recognized as one of the Bank's most valuable assets, meriting preservation, development, and steadfast support. Human resources stand as a fundamental cornerstone and pivotal axis within the Bank's operations. This significance was notably demonstrated during the final three months of 2023 in the Gaza Strip and across various governorates of our esteemed nation. We faced a genuine challenge, not only in human resources management, but across all departments and leadership realms, necessitating effective fulfillment of roles and innovative practices to uphold employee health and safety. This was achieved through the formulation of an emergency plan to facilitate remote work continuity and goal achievement.

The Human Resources Management department, in collaboration with partner entities, played a vital role in providing support and assistance, catering to the basic, health, supply, and financial needs of our employees. This support was especially directed towards our colleagues in the Gaza Strip, who were significantly impacted by prevailing circumstances. Continuous and open communication channels were established to reassure employees and their families, mitigate the repercussions of exceptional circumstances, and foster hope amidst adversity.

Moreover, the Human Resources Department continued its organizational and management functions in the West Bank by augmenting human resources through internal rotations or recruitment drives. This was aimed at bolstering and managing departments and units affected by prevailing circumstances, ensuring employees' adaptability, commitment, and task accomplishment to maintain operational sustainability and continuity. In response, employees showcased unwavering commitment, loyalty, and a strong sense of teamwork.

In addition to effectively addressing urgent challenges, the Human Resources Management department achieved several milestones in 2023, including:

- Establishment of new departments and sections within the organizational structure to contribute to the Bank's strategic objectives and support operational development.
- Monitoring the evolution of policies, procedures, and developmental projects within the Human Resources Department, including amendments to the human resources system pertaining to trainee data and automation, and the establishment of an alerts system for assignments, contract terminations, leaves, linked to employees' emails.
- Reinforcing the human element as a fundamental pillar in our investment strategy, with the total number of employees reaching 1,790 by the end of 2023. This reflects ongoing efforts in developing and empowering the workforce through a conducive work environment and sustainable development programs, contributing significantly to nurturing a qualified and competent workforce, thereby enhancing our capacity to achieve sustainable growth and corporate objectives.

**Our Employees**

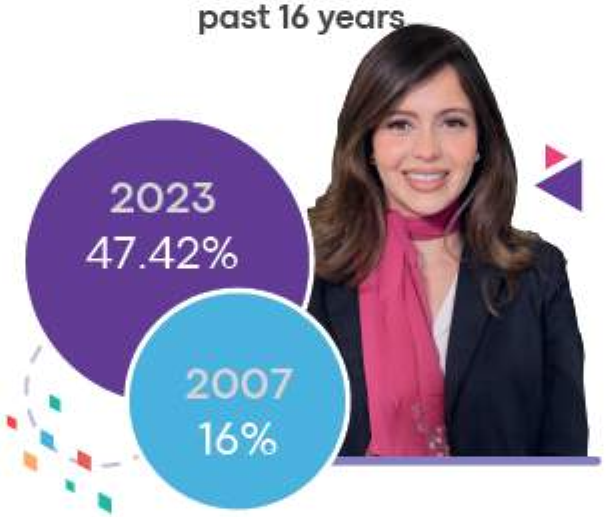
- A notable increase in the percentage of female employees, reaching 47.42% by the end of 2023, with a corresponding rise in their participation rate in administrative positions to 29.48%. This underscores our dedication to promoting diversity and equal opportunities, enhancing female representation in Bank leadership, bolstering our managerial strength, and reflecting our future strategic vision.

Percentage of BoP female employees
**47.42%**

Percentage of BoP female in senior positions
**29.48%**

Educational Levels


The increase in the percentage of BoP Female employees during the past 16 years








## Talent Management Department

The Talent Management Department plays a pivotal role in the Bank's aspirations towards sustaining the process of development and continuous improvement of human resources by providing high-quality training programs. It has facilitated numerous programs and activities to achieve the strategic goals and aspirations of the Bank. In 2023, the department focused on key areas vital for the banking sector, including risks, compliance, anti-money laundering and counter-terrorism financing, information technology, banking finance, managerial skills, and team management. The department successfully executed 100 training events and provided 3,343 training opportunities for employees.

| Training Topic | # Trainings Implement-ed | # Partici-pants |
|---|---|---|
| Financial Management and Investment | 6 | 92 |
| Compliance and Anti-Money Laundering | 2 | 7 |
| Finance and Banking Credit | 15 | 208 |
| Technical and Logistic Services | 3 | 23 |
| Monitoring and Audit | 5 | 79 |
| Banking Operations | 14 | 1,035 |
| Banking Risks | 3 | 46 |
| Administrative and Behavioral Skills | 35 | 1.603 |
| Human Resources | 3 | 36 |
| IT | 14 | 214 |
| Total | 100 | 3,343 |

Despite the challenges posed by the conflict in Gaza, the department persisted in enhancing the knowledge and skills of employees. We transitioned to remote electronic training and emphasized digital transformation in training to support skill development through our electronic training platform. Additionally, we conducted workshops on stress management to bolster the mental health of our employees and empower them to persevere in their roles despite the adversities.

The Talent Management Department continued its commitment to the "Future Managers" program, which focuses on cultivating emerging leaders among our male and female employees. Participants are guided through a structured career path aimed at preparing them for future managerial and leadership roles within the Bank. We also established the Department Heads Club for excellence in customer service, which prioritizes the development of skills and competencies essential for delivering exceptional service. This includes creating career path plans and associated training paths to enrich the experiences of employees throughout their tenure at the Bank. Moreover, we updated the job rotation plan to ensure business sustainability and mitigate unforeseen risks by preparing a pipeline of potential candidates for key positions within the Bank. Furthermore, a dedicated program was initiated to enhance banking knowledge and managerial and leadership skills for branch managers and supervisors.

We emphasized strengthening partnerships with national universities by offering training opportunities for students through various programs. The Bank of Palestine Advocates team, comprising the top 48 students from Palestinian universities, was selected and prepared to promote the Bank's services and products and participate in marketing and social events. Additionally, the Bank-e program, a collaboration between Bank of Palestine and Palestinian universities, engaged the top 44 students in a comprehensive training program covering essential topics for working in financial and banking institutions. Furthermore, efforts continued in the development and oversight of the BoP Banker program, with nine exceptional graduates selected to participate, and who were provided with 80 unique training opportunities focusing on a diverse range of skills, along with practical training in the Bank's departments and branches.

We have made significant strides in the branch transformation project, focusing on enhancing technological systems, fostering an institutional culture, and promoting values that align with the Bank's strategic vision. Various training courses have been conducted across all managerial levels within the Bank to facilitate this transition. Furthermore, change ambassadors have been strategically selected across branches, offices, and departments, with plans underway to further develop these ambassadors and embed institutional values among employees in the coming year.

### Our Employees

In line with Bank of Palestine's core values of Honor, Leadership, Resilience, Reliability, and Sustainability, we are dedicated to integrating these principles into our activities and initiatives. Efforts have been directed towards improving internal communication to cultivate a positive work environment and ensure the well-being of our employees and their families. Employees are encouraged to participate in volunteer activities aimed at fostering environmental and community development, with 40 events and activities organized throughout 2023, providing over 2,500 participation opportunities across the West Bank and Gaza.

**40**
**events and activities**

**2,500**
**participation opportunities**

We aim to strengthen communication and collaboration among employees through various activities and events. Notable examples include the annual Palestine International Marathon, which sees participation from employees across regions and cities, and the Bank of Palestine annual football league, fostering camaraderie among branches and departments. Additionally, initiatives such as "Your Voice Heard" facilitate communication channels between employees and Senior Management, ensuring that employee voices are heard and valued.

Promoting team spirit and teamwork remains a focal point, with events like "Strength in Unity" bringing together employees from different branches and departments in the West Bank and Gaza Strip (total of 4 meetings). Attention is also given to employee health and well-being through initiatives promoting a healthy lifestyle, such as "Your Health, Smoke-Free", and "The Biggest Loser" and "The Biggest Winner" to assist employees in reaching their ideal weight, and the organization of the Sports Open Day for female employees. Furthermore, support for sports talents is provided through sponsorship of the Bank's football team and participation in local and international tournaments.

To cultivate a culture of cooperation and volunteerism among employees, we implement a comprehensive annual plan encouraging their participation in various voluntary activities, which include, but are not limited to, the Good Trees initiative, the National Cleanliness Day, the Ramadan Iftar, an entertainment day for orphans and persons with disabilities, visits to cancer patients and elderly homes, and contribution to renovating archaeological and historic sites. Efforts are ongoing to strike a balance between work and personal life by organizing family-oriented activities, such as open sports days for employees' children.



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## Bank of Palestine Group

The Arab Islamic Bank

البنك الإسلامي العربي
ARAB ISLAMIC BANK

## Establishment

The Arab Islamic Bank (AIB) is a Public Shareholding Company that was established in 1995 and started its banking operations in early 1996. The Bank conducts banking and investment activities in accordance with the provisions of Islamic Sharia through its headquarter in Ramallah and Al Bireh, as well as its branches throughout Palestine. In addition to the Representative Office in the United Arab Emirates (Emirate of Dubai) and the mobile branch "Mobi Bank". The Arab Islamic Bank now has 30 branches and offices. The Bank has no subsidiaries until 31 December 2022.

## Vision

A unique national Islamic bank that practices digital, modern and sustainable banking and exceptional human resources, to provide its customers with high quality and safe banking services that are compatible with the Islamic Sharia.

## Mission

To provide modern, comprehensive, high quality and competitive Islamic banking solutions and services and support and develop innovative solutions for upcoming generations and entrepreneurs, to contribute to economic development, achieve the principle of solidarity and cooperation and observe Islamic social objectives.

## Strategic Goals

- Digital transformation
- Investing in the development of human cadres
- Maximizing shareholder rights
- Financial Inclusion
- Enhancing retail and small enterprise services
- Increasing market share
- Promoting the identity of Islamic banking and sustainable development

## Performance Indicators

The Bank continued its remarkable growth in all its financial indicators during the last 5 years, as its assets increased by approximately $77 million, with a growth rate of (4.68%).Direct financing increased by approximately $80 million, with a growth rate of (8%), while customer deposits increased by approximately $72 million, with a growth rate of (5.19%), and the bank achieved net profits of $5.5 million during 2023.

| Item | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Assets | 1.738 | 1,661 | 1,738 | 1,557 | 1,272 |
| Customer Deposits | 1.464 | 1,392 | 1,420 | 1,296 | 1,024 |
| Direct Financing | 1.108 | 1,028 | 1,012 | 945 | 758 |
| Net Profits | 5.52 | 13.1 | 11.7 | 8.0 | 9.0 |

Amounts are in million USD

## AIB Market Share

AIB maintained its distinctive market share and financial performance strength. In terms of assets, its market share in the Palestinian banking sector reached approximately 8%. Regarding direct financing, its market share reached about 9.4%. As for customer deposits, the bank's market share was around 8.7%.

| Assets | Customer Deposits | Direct financing |
|---|---|---|
| 8% | 8.7% | 9.4% |





## Highlights of Achievements and Activities During 2023 (Projects and Products)

- Upgraded the banking system from IMAL 12 to IMAL 14, enabling the provision of advanced banking services and keeping pace with the best global banking services.
- Launched an updated version of the mobile banking app with new features.
- Launched the bank's website with its new design.
- Obtained the Payment Card Industry Data Security Standard (PCI-DSS) compliance certificate.

## Sponsorships

- Donated USD 250,000 to our people in Gaza through the World Food Programme (WFP).
- Provided primary sponsorship for the Conference on Economic Sustainability in the Era of the 5.0 Industrial Revolution hosted at An-Najah National University.
- Provided primary sponsorship for the International Conference on Digital Studies and the Future of Technology Education at Palestine Ahliya University.
- Provided primary sponsorship for the First Scientific Conference on Pediatric Medicine, organized by the Red Crescent Society.
- Provided primary sponsorship for a conference on the outputs and reality of Palestinian higher education between available job opportunities and unemployment.
- Sponsored the First International Conference on Digital Transformation at the Arab American University.
- Sponsored the Joint International Conference between Palestinian universities at Al Istiqlal University.
- Supported the interinstitutional Table Tennis and Chess Championship (for men and women) organized by the Palestinian Sports Federation.
- Provided food parcels for the elderly in cooperation with Birzeit Cultural Community Center.
- Supported the printing of a book about the Conference in Islamic Banking, Between Reality and Hope.

## Awards

The EMEA Award for Best Islamic Bank in Palestine in 2022

## Events and Activities

- Conducted a training program for students at An-Najah National University in Nablus.
- Organized events to commemorate Al Mawlid Al Nabawi in several governorates.
- Participated in the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) Conference for Shariah Boards - Bahrain 2023.
- Participated in Al Barakah Seminar (43) entitled "The Islamic Economy and Authenticity of Sustainability in Saudi Arabia."
- Participated in the technical workshop of the General Council for Islamic Banks and Financial Institutions (CIBAFI) on "Digital Transformation Strategies in Islamic Financial Institutions."
- Participated in the technical workshop of CIBAFI on "Economy, Financial Technology, and Digital Transformation Strategies in Islamic Financial Institutions."

## Campaigns

- "Fill it up and chill" to encourage customers to use cards at gas stations instead of cash.
- "Use your cards and win the value of your purchases" to promote the use of bank cards instead of cash.
- Special campaign for high school students "Succeed and Enjoy your Prize" (10 prizes worth 10 times the average).
- Special campaign to update customer data "Update your data and enter the draw for an iPhone".
- Special campaign to pay Ramallah municipality fees through bank cards and enter a draw for a prize equivalent to the paid fees.
- "Top-up your balance and get extra gigas" for recharging Ooredoo balance through the bank's app and getting specific packages with each recharge.

The Arab Islamic Bank

## Banking Products and Services

AIB is keen on developing its products and services to maintain customer loyalty, attract new customers, and reach out to new markets. The Bank continues to develop existing products and introduce new and competitive ones. It has also developed its internal environment to gauge customer satisfaction levels, analyze their needs and desires, and enhance its ability to implement new products within global best practices standards.

## Electronic Services

- Internet banking and the Mobile Bank
- QR Code payment service through the Mobile Bank app
- Video Call service
- Points of Sale (POS)
- Card Verification Method (CVM)
- Instant bill payment
- Electronic channels

**This is in addition to a wide range of distinctive products and services offered by the bank:**

- Bank cards
- Western Union quick transfer service
- Mobile Bank - Banki AlaTareeq (my bank on the road)
- Corporate financing program
- Small and Medium Enterprises (SMEs) financing program
- SunRef energy financing program
- Retail financing programs:

- Car financing
- Lease-to-own.
- Gold-backed financing
- Istisna'a financing
- Goods financing
- Health services, education and travel financing (forward Ijarah): Education services, health services, services, and purchasing travel tickets.

## Treasury and Financial Markets

AIB's Treasury Department delivers financial services to its customers at competitive market rates, adhering to Sharia principles. The Department offers currency exchange services, investment deposits, and savings accounts. It has effectively managed liquidity, particularly during challenging market conditions and liquidity constraints, and sustained profitable returns through capital market investments, positively impacting the Bank's performance and contributing to excellent growth rates.



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شركة الوساطة للأوراق المالية

## ALWASATA SECURITIES COMPANY

Established in 2005 as a subsidiary of Bank of Palestine, Al Wasata Securities has become a leading financial investment institution in the local market and established its presence in regional and international markets. Committed to fulfilling investors' aspirations and ensuring the success of their investments, the company provides the best and most up-to-date services to support sound investment decisions. This is achieved through:

- **A professional and highly trained staff.**
- **The use of the latest trading technologies.**
- **Providing accurate and timely information to investors.**
- **Maintaining complete confidentiality with investor data and transactions.**

## Achievements 2023

Al Wasata Securities achieved several significant milestones in 2023. Notably, the company served as the trustee for issuing bonds of the Arab Palestinian Investment Company, totaling approximately USD 74 million. Furthermore, Al Wasata attracted 529 new accounts throughout the year, demonstrating its ongoing appeal to investors.

The trading volume facilitated by Al Wasata in both the Palestine Exchange and regional markets reached approximately USD 120 million, with USD 56.6 million traded within the Palestinian market alone. Moreover, customer portfolios surpassed the USD 500 million mark by the year's end. The company sustained its revenue growth, primarily driven by operational revenues.

Aligned with its vision to provide exceptional investment services, Al Wasata continues to leverage cutting-edge secure technologies, including the deployment of an electronic brokerage application for mobile devices and personal computers. These advancements enabled the delivery of high-quality electronic services with competitive commissions across various foreign markets, enhancing accessibility for investors.

To reinforce investment awareness and promote its services, Al Wasata conducted outreach meetings targeting potential investors in the securities sector. The company also maintained active participation in events organized by the Palestine Exchange. Additionally, it upheld regular communication with customers, leveraging the latest electronic trading technologies to deliver services efficiently. Al Wasata offers several complimentary services, including daily closing price notifications, daily reports, and electronic account balance inquiries. It also provides a seamless disclosure of stock balances through a banking application affiliated with Bank of Palestine. Investors could easily transfer funds between their bank and trading accounts electronically. Through these initiatives, Al Wasata aims to streamline investors' activities and ensure they remain well-informed of the latest developments to make informed investment decisions.

## Al Wasata Securities Overview

Established in 2005 as a subsidiary of Bank of Palestine, Al Wasata Securities boasts a paid-up capital of USD 5 million. The company officially launched operations in 2007 upon securing membership in the Palestine Stock Exchange and obtaining a license from the Palestinian Capital Market Authority, enabling to provide a range of services including:

- **Brokerage for third-party accounts**
- **Self-brokerage**
- **Portfolio management (acting as a financial advisor to manage investment portfolios)**
- **Issuing agent**
- **Issuing manager**

Primarily focused on financial brokerage within the Palestine Stock Exchange, Al Wasata extends its services to investors in select regional exchanges, including the Amman Stock Exchange, Egyptian Exchange, Dubai Financial Market, Abu Dhabi Securities Exchange, Saudi Stock Market, and American exchanges.

To ensure nationwide coverage, Al Wasata leverages the branch network of Bank of Palestine, its parent company and the largest bank in Palestine. Additionally, it caters to clients beyond Palestine through Bank of Palestine's Representative Office in the Dubai International Financial Center, UAE, and the Representative Office in Santiago, Chile. This outreach targets Palestinian expatriates in the Gulf and South America, as well as investors interested in the Palestinian market. Al Wasata further enhances accessibility through electronic trading programs tailored for the Palestine Stock Exchange and mobile trading applications for foreign markets.





## Palpay Company

محفظتي PALPAY

PALPAY® The first operator of electronic payments in Palestine

### Overview

PalPay, established in 2010 through a partnership between Bank of Palestine and PCNC IT Solutions, is Palestine's pioneer in electronic payment services. As a leading provider of innovative digital transformation solutions, PalPay serves a diverse client base of 203 companies and institutions, fostering financial inclusion and supporting the digital economy.

PalPay specializes in cutting-edge digital payment methods and solutions, leveraging financial technology to optimize business performance. Services include E-commerce solutions, streamlined loan request processes for small lending institutions, QR code-based purchase transaction systems for Bank of Palestine, the introduction of "Mahfazti" electronic wallet, money transfers, and complimentary VISA cards.

In 2023, PalPay facilitated transactions totaling ILS 3 billion (USD 831 million), underscoring its commitment to advancing digital financial services. Moving forward, PalPay aims to broaden its service offerings across various sectors, driving further growth and innovation in Palestine's digital economy.

### Key Achievements and Services in 2023

Throughout 2023, PalPay made significant strides in its ongoing development. It successfully expanded its partner network, welcoming a multitude of new companies and institutions to its customer list. Additionally, PalPay prioritized enhancing cooperation with banks and strategic partners, further fortifying its capacity to deliver innovative and secure services to users. These achievements underscore PalPay's commitment to innovation and excellence in delivering cutting-edge financial solutions to its clientele.

PalPay also introduced the following new digital solutions:

- **Payment Gateway:** A dedicated service facilitating electronic payments via Visa and MasterCard issued by both local and international banks. This feature empowers cardholders to conveniently purchase products or services through the electronic gateway integrated with the website or mobile application.
- **Payment Links:** An e-commerce solution tailored for merchants and companies seeking to leverage the service without the need for their own website or application.
- **PINPAD Integration:** Seamlessly connects merchant machines with their accounting systems, facilitating the generation of transaction reports for MasterCard and Visa directly through the accounting systems.
- **Checkout Integration:** Integration with Banke, AIB, Mahfazati applications streamlines the checkout process.
- **Apple Pay:** Addition of VISA card for My Wallet application to the Apple Pay system.
- **SoftPOS Electronic Payment Authorization Application:** Enables merchants to accept payments via electronic payment cards and QR transactions using their cellular devices running on the Android system.
- **Salary Transfer System via e-Wallet:** Simplifies salary transfers through the e-Wallet platform.
- **Aid Transfer Systems via e-Wallet or Codes:** Facilitates aid transfers, whether in the West Bank or Gaza Strip.

## Campaigns and Events in 2023

### Activities and Events:

- Organized a ceremony to honor students who excelled in the General
- Certificate of Secondary Education examinations in the West Bank and Gaza Strip.
- Sponsored a reception for new students at Al Najah National University.
- Sponsored an open day for graduate students at Al Najah University.
- Participated in festivals: Wein a Ramallah, Al Harajah Market and Layali Birzeit.
- Sponsored the closing ceremony for INJAZ.

### Campaigns

- Ramadan Campaign
- Campaign for Tawjihi students
- Campaign for recharging electricity meters

## Social Responsibility 2023

PALPAY demonstrated its commitment to corporate social responsibility through humanitarian initiatives implemented during 2023, including:

1. Cash donations, in partnership with Save the Children Association, to aid children in the Gaza Strip during the ongoing war.
2. Donated 10 university scholarships to accomplished high school graduates for enrollment in various Palestinian universities.








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## Qudra for Renewable Energy Solutions

(Qudra) seeks to develop cheap electric energy from renewable natural sources, based on the vision of its founders of the need to support this promising sector and to strengthen the Palestinian national economy. Framework agreements with municipalities, local councils and companies. Distribution of Palestinian electricity, with the aim of providing these institutions with services and equipment enhanced with the latest modern technologies and of the highest quality. It has developed a capacity of its skills and capabilities, relying on a global network of manufacturers and suppliers of renewable energy solutions, who have developed several similar stations around the world.

### Inauguration of the Largest Solar Power Plant in Palestine

Qudrah Company for Renewable Energy Solutions has successfully secured a permanent generation license for its solar power plant located in the Deir Abu Mish'al area of Ramallah. This significant milestone marks the culmination of the company's efforts in financing and developing a state-of-the-art solar power facility with a capacity of up to 8.25 megawatts peak across various lands owned by Qudrah in the region. These lands are connected to the grid supplied by the Jerusalem Electricity Company.

Qudrah will oversee the operation of the majority of the plant through a power purchase agreement with the electricity company. This strategic partnership not only ensures the sustainable operation of the plant but also enables the electricity company to leverage locally produced renewable energy at competitive prices, thus reducing its reliance on imported electricity.

The inauguration of this plant aligns seamlessly with Qudrah's vision of promoting renewable energy adoption in Palestine. The Deir Abu Mish'al station will play a pivotal role in enabling the electricity company to cater to the energy needs of over 10,000 households annually across four key residential areas. Furthermore, it will facilitate stringent control over electricity quality standards and ensure the operational efficiency of the company's networks in the region.


Abu Mish'al solar power plan

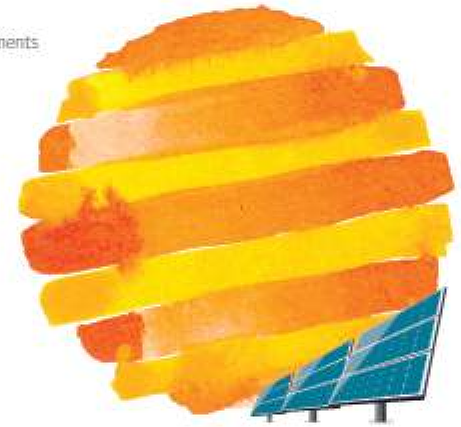
This remarkable achievement underscores Qudrah's unwavering commitment to leveraging cutting-edge solar technology and adhering to global standards in the design and operation of its facilities. With a planned operational lifespan of 25 years, the solar power plant promises to be a sustainable and reliable source of clean energy for the region, contributing to both environmental conservation and energy security.

## Solar Power Projects Under Development

Qudra is actively engaged in financing, designing, constructing, operating, and maintaining solar power plants across Palestine. These plants are connected to medium-pressure grids through variable-term power purchase agreements or finance leasing arrangements. By the end of 2023, Qudra's operations and maintenance efforts are projected to encompass a total capacity approaching 10 megawatts peak. This builds upon Qudra's extensive experience in designing and constructing solar power plants, with a cumulative capacity exceeding 14 megawatts peak. These projects span installations on building rooftops as well as on lands designated for several commercial and industrial consumers under solar energy service agreements.

A hallmark of Qudra's achievements is the solar power plant located in the Jamala area of Ramallah. This plant, situated on lands owned by the company in the region, boasts a total capacity of 7.5 megawatts peak. Recognizing the vital role of renewable energy in Palestine's energy landscape, Qudra is committed to providing citizens and businesses with affordable electricity sourced from renewable natural resources. These endeavors contribute significantly to the advancement of the Palestinian national economy. Furthermore, Qudra's expertise extends to building plants on rugged terrain, prevalent in many hills across several Palestinian provinces, with a focus on optimizing efficiency and performance.

قُدرة
Qudra



## Cutting-Edge Technology Integration

Qudra's power stations showcase cutting-edge technologies. This dedication is evident in its selection of diverse solar panel models, boasting unique designs and exceptional efficiency up to 22.2%. Qudra provides warranties extending up to 30 years for its products, crafted under the guidance of leading global experts.

Qudra's solar panels, tailored for the Palestinian market, hold certifications from accredited laboratories, ensuring adherence to international performance standards. Additionally, they are certified by the Palestinian Standards and Metrology Institute.

Qudra has also introduced control solutions for solar power inverters developed by its Research and Development team. These monitoring and control devices allow users to track system production and adjust output to align with consumption patterns. Qudra has successfully executed numerous projects based on self-consumption models, minimizing reliance on electricity exportation through the distribution grid.

## Strategic FocusStrategic

Qudra meticulously tracks developments and risks up to the end of 2023, a period marked by the dev-astation of critical infrastructure in several regions of Palestine, particularly in the energy and water sec-tors. This unfolds within a global context of exceptional circumstances, characterized by climate change and threats to energy, food, and water security. These challenges have spurred most nations to pivot towards clean energy, harnessing renewable sources to realize substantial electricity cost savings and ensure locally sourced alternatives.

In response, Qudra has formulated localized strategies to address the Palestinian context, where citizens often face inadequate access to electricity for their genuine needs, be it in residential or commer-cial/industrial domains. With the escalating demand for electricity, there arises a burgeoning opportuni-ty to leverage renewable energy to meet this demand, with anticipated significant growth across vari-ous sectors and applications in the years ahead as many services transition to electric power as a substi-tute for thermal or chemical energy.

An early initiative undertaken by the company in 2023 involved hosting a specialized workshop aimed at exploring the design of battery storage systems integrated with solar energy and their connectivity to local grids. The workshop featured expert trainers from entities that have executed similar projects across the Arab world. Among the attendees were representatives from the Jerusalem Electricity Com-pany, Northern Electricity Company, Hebron Electricity Company, Tubas Electricity Company, Southern Electricity Company, Palestinian Energy and Natural Resources Authority, and the Palestinian Electricity Regulatory Council.

This emphasis on storage systems stems from Qudra's recognition of the critical importance of provid-ing such technologies in the aftermath of infrastructure destruction and restrictions. It also under-scores Qudra's commitment within its affiliations with various public institutions, holding several local and regional positions, including membership on the Board of Directors of the Palestinian Renewable Energy Industries Union and participation in the Middle East Solar Energy Foundation.

## War Ramifications

The impact of the war on Gaza ripples through the maritime routes used by ships arriving from the East, crucial for sourcing materials for manufacturing solar energy equipment. This jeopardizes the local market's capacity to meet the growing demand for solar energy solutions. Qudra has utilized its expan-sive global network of factories to secure uninterrupted access to equipment for ongoing projects. Fur-thermore, it has placed emphasis on providing tailored solutions to counteract the absence of electrici-ty infrastructure, prominently featuring mobile systems for both solar energy generation and storage.





**The Ibtikar - Youth Startup**

صندوق ابتكار
IBTIKAR FUND

Bank of Palestine is dedicated to fostering entrepreneurship in alignment with its vision for sustainable economic development in Palestine. The Bank has demonstrated this dedication through its establishment of the Ibtikar Fund in collaboration with various local and international private sector institutions, with an aim to enrich Palestine's entrepreneurial landscape by backing innovative projects.

Bank of Palestine actively supports the Ibtikar Fund by facilitating networking between entrepreneurs and the Fund's founding companies, aiming to propel the entrepreneurship and digital technology sectors forward in Palestine. Moreover, it fosters a connection between expatriates and their homeland by engaging them in economic endeavors.

The Ibtikar Fund concentrates on its objectives by investing in leading Palestinian startups specializing in digital technology. Ibtikar provides essential financing and practical assistance to these companies, empowering them to grow both domestically and internationally. By bridging the financing gap between the acceleration phase and subsequent stages, the Fund has facilitated Ibtikar portfolio companies in securing an additional USD 20 million from regional and international investors.

The companies within the Ibtikar Fund portfolio have played a pivotal role in generating over 500 direct jobs for highly skilled individuals, particularly youth, with 50% of them under the age of 30, and women occupying 30% of these positions. Additionally, one-third of the companies in the Ibtikar portfolio are led by women.

Operating across diverse sectors such as financial technology, marketing technology, e-commerce, real estate, health, and safety, the portfolio companies of the Ibtikar Fund have successfully expanded their sales operations into markets across the Middle East, North Africa, Europe, Latin America, and the United States.

Intersect Innovation Hub

INTERSECT INNOVATION HUB

## Intersect in 2023

In 2023, Intersect intensified its entrepreneurship activities and programs, aligning with Bank of Palestine Group's strategy to promote the entrepreneurship sector and empower Palestinian entrepreneurs. This concerted effort aimed to activate the pivotal role of this sector in contributing to sustainable economic development. Throughout the year, we saw the successful completion of a suite of programs and the introduction of new initiatives, all geared towards ensuring the continued growth of this promising sector despite prevailing challenges.

## Supporting Innovators in Residency Programs for Tech Startups

During 2023, Intersect embarked on providing support services to the third cohort enrolled in the startup in residence incubation program. This cohort included Ayzeen, Crowdious, Deebak, Gamiphy, Nabeeh, Safra, and SHAMS-i. These companies dedicated their residency period to developing constructive technological solutions across various domains. Notably, teams Lahza and Dufaaty, graduates of Intersect's FinTech Hackathon in 2021, were selected for the acceleration program by ChangeLabs in Jordan. Furthermore, Dufaaty's team participated in the Palestine Monetary Authority (PMA) Sandbox facilitated by Intersect and supported by Bank of Palestine, focusing on testing the Dufaaty application under legal and regulatory frameworks supervised by the PMA.

Intersect also played host to five tech startup companies in Nablus, including Jusoor Labs, Guruhub, Edubook, Yummy, and GoMake. Additionally, four tech startup companies joined the residency in Ramallah, namely Foras, Salon Beauty Booking, Bazaard, and CVision. These endeavors reflect Intersect's commitment to fostering innovation and entrepreneurship across different regions.

Enhancing capabilities through strategic partnerships to further bolster its capabilities, Intersect received support services from the International Finance Corporation (IFC), a member of the World Bank Group, through the Entrepreneurship and Innovation Program. This collaboration aimed to refine the tech startup acceleration program and provide enhanced support services to enrolled groups in Nablus and Ramallah. By building a comprehensive framework, this partnership seeks to nurture tech startups at various growth stages, increase the number of successful ventures, foster collaboration with ecosystem partners, and expand the program's reach and impact.

## Support Building the Innovation and Startup Ecosystem

Intersect dedicates its efforts to enhancing the Palestinian entrepreneurship environment at all levels, working in collaboration with local and international partners who share its vision. The aim is to develop robust and reliable tools to support Palestinian entrepreneurs, investors, mentors, and innovation support institutions alike. In pursuit of bolstering the entrepreneurial and technological environment in Palestine, Intersect managed several projects during 2023 in partnership with various entities, including:

1. Palestine Ecosystem Building Initiative: Intersect Implemented a program aimed at enhancing the capabilities of Palestinian innovation and entrepreneurship support organizations, funded by the SPARK. In collaboration with Village Capital and its international experts, the program seeks to develop and diversify the services offered by these institutions to support entrepreneurs within their programs. The program includes conducting workshops for the teams of innovation and entrepreneurship support organizations from the West Bank, Gaza Strip, and Jerusalem, including Flow Accelerator, JEST, Palestine Polytechnic University Incubator, Palestine Information and Communication Technology Incubator (PICTI), Palestine Technopark, Station J, and University College of Applied Sciences (UCAS) Incubator.



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2. RISE Palestine Initiative: In response to the ramifications of the war on Gaza and its impact on the entrepreneurship and technology sector in Palestine, Intersect worked towards the end of 2023 on designing the Rise Palestine program, initiated by Bank of Palestine. The program, scheduled to be launched in early 2024, aims to support the resilience of Palestine's innovation and startups ecosystem. It urgently collaborates with relevant institutions to mobilize support for young entrepreneurs and startups in the tech sector, contributing to the advancement of the tech and digital economy in Palestine. The program offers two main grants: the Team Grant targeting employees and freelancers of tech companies and projects affected by the war on Gaza, and the Startup Grant targeting tech startups in Gaza, the West Bank, and East Jerusalem. These startups have been severely impacted by the war's shock due to the lack of financial reserves and stable revenue sources. The grant aims to support the daily activities of nascent entrepreneurial ventures and enhance their sustainability, growth, and development.

3. ThriveTK Platform: Development of the ThriveTK portal by the end of 2023, an online platform showcasing technical talents in Palestine along with detailed data on the skills and experiences of talented individuals. The portal serves as the main gateway for companies seeking to recruit technical talents from Palestine. Expected to launch in June 2024, the electronic portal will feature developers, startups, technology companies, and universities.

## Supporting Access to Regional and Global Events

Intersect is dedicated to bridging Palestinian startups with the global entrepreneurship and innovation ecosystem through the development of programs, event organization, and active participation in international conferences. Employing a strategic approach, Intersect aligns itself with global trends, fosters partnerships, and guides incubated startups to adapt to the evolving landscape of sustainable global practices and environmental stewardship. In pursuit of this objective, Intersect has been actively engaged in numerous regional and international events:

1. COP28 Engagement: The United Nations Framework Convention on Climate Change Conference (COP28) provided a fertile platform for Intersect to catalyze positive change and align its initiatives with global sustainability objectives. At COP28, the Intersect team raised awareness about Palestine's entrepreneurship and innovation ecosystem, showcasing the Hub's programs, initiatives, and supportive projects aimed at nurturing the entrepreneurial landscape. The team notably underscored the significance of the Rise Palestine program in bolstering technology firms and professionals in Gaza and the West Bank. Intersect remains committed to leveraging opportunities stemming from such engagements to empower Palestinian entrepreneurs and startups, thereby enhancing their prospects for success.

2. Abu Dhabi Financial Week: Bringing together leaders from hundreds of investment funds across diverse sectors, Abu Dhabi Financial Week aimed to champion innovation that contributes to a more sustainable global economy while enhancing economic well-being.

3. Memorandum of Understanding with Dubai Chamber of commerce: The signing of a Memorandum of Understanding with the Dubai Chamber was geared towards enhancing startups' access to the UAE market, experts, investors, and partnership opportunities. This collaboration is poised to amplify Intersect's effectiveness and foster meaningful relationships, paving the way for impactful deals beneficial to startups and the Palestinian entrepreneurship and innovation ecosystem.

INNOVATION HUB

4. Execution of the LINK Program: To promote its presence in the UAE, Intersect is implementing the LINK program, primarily based in the technology park in Birzeit. This initiative aims to fortify connections between regional and international companies and technological talents in Palestine, thereby fostering economic diversification and propelling the digital economy forward. The program includes provision of fully equipped offices outfitted with cutting-edge devices and cybersecurity measures. Moreover, its synchronization with the UAE's time zone facilitates seamless communication and collaboration opportunities.

## Investing in the Next Generation of Entrepreneurs

In 2023, Intersect successfully concluded its Employment Training Program (Cybersecurity Fundamentals), providing aspiring entrepreneurs with essential skills for developing secure online products. Collaborating with leading trainers from Cystack, the program aimed to prepare participants for employment in startups, public, and private sectors. Its goal was to equip participants with the necessary training and expertise to thrive in both local and international job markets.

As an implementing partner of the SPARK project, funded by Google, Intersect played a crucial role in supporting activities within the Palestine Launchpad with Google program delivered by Udacity. This program aimed to equip Palestinian youth with the skills and networking opportunities necessary to access the global technology talent pool. Through grants, the program offers state-of-the-art coding subjects via Udacity's educational platform.

Intersect, a nonprofit business incubator, is dedicated to providing startups with the necessary resources for innovation. With branches strategically located in Ramallah and Nablus, Intersect aims to extend its reach to other Palestinian cities through its strategic partnership with Bank of Palestine. This collaboration allows it to leverage space in Bank branches, enhancing accessibility to the institution's services for every Palestinian entrepreneur and innovator.

Furthermore, Intersect actively supports Palestinian entrepreneurs and fosters the entrepreneurial ecosystem by cultivating a culture of collaboration, global thinking, and environmental sustainability. These principles serve as the foundation for addressing challenges, analyzing problems, and devising impactful solutions for Bank of Palestine Group.



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# Financial Statements

BANK OF PALESTINE P.L.C

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

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C.R. No. 562201038

# Independent Auditor's Report

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

## Qualified 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, 2023, 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 information about material accounting policies and information.

In our opinion, except for the potential effects of the matters described in the paragraph of the basis for the qualified opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2023, and its financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

## Basis for the Qualified Opinion

The Bank disclosed its gross total exposures in Gaza Strip and the related impairment provisions and the net book value of these exposures in Note (54) to the consolidated financial statements. These provisions have been calculated by management according to its best estimates which is based on the latest available information in light of the state of uncertainty beyond management's control due to the continuation of the war on Gaza Strip. As a result, we were unable to obtain sufficient audit evidence of the provisions recorded against the bank's assets in Gaza Strip as of December 31, 2023. Consequently, we were unable to determine whether it was necessary to make any adjustments to the consolidated statement of financial position as of December 31, 2023 as well as the consolidated income statement for the year then ended.

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

## Key Audit Matters

In addition to the matters described in the basis for the qualified opinion paragraph, we have identified the following issues as the key audit matters to be disclosed in our report. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

| Adequacy of provision of expected credit losses for credit facilities and Islamic financing | |
|---|---|
| Key audit matter | How the key audit matter was addressed in the audit |
| The process of estimating the expected credit losses of customers' receivables and credit facilities in accordance with IFRS (9) is important, complex and requires a lot of diligence.<br><br>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.<br><br>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.<br><br>As at December 31, 2023, the Bank's gross direct credit facilities and Islamic financing amounted to U.S. $ 4,121,614,291 and the provision of expected credit losses amounted to U.S. $ 264,714,268.<br><br>Accounting policies estimates and significant accounting judgments, disclosures of the ECL, and credit risk management are detailed in notes (3, 8, 48 and 54) to the consolidated financial statements. | Our audit procedures included assessing the controls on procedures for granting, recording and monitoring receivables and credit facilities, 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 payables and direct credit facilities, and required provisions against them.<br><br>Our procedures for testing controls also included assessing whether key controls, in the aforementioned processes had been designed, applied and effectively implemented; in addition to performing the following assessment procedures:<br><br>– The Bank's policies related to the ECL provision in accordance with IFRS (9).<br>– Key assumptions and judgments related to the material increase in credit risk, the definition of default, and the use of macroeconomic inputs to verify that the ECL amounts recorded reflect the underlying credit quality and macroeconomic trends.<br>– The appropriateness of the Bank's staging.<br>– The appropriateness of determining Exposure at Default (EAD), including the consideration of the cash flows repayments and the resultant arithmetical calculations.<br>– The appropriateness of the Probability of Defaults (PD), Exposure at Default (EAD) and Loss Given Defaults (LGD) used for different exposures at different stages.<br>– The appropriateness and objectivity of the internal evaluation of credit facilities.<br>– The accuracy and appropriateness of ECL calculation process<br>– Credit facilities transferred between stages, and the determination basis of significant increase in credit facilities and financing risk in regard to timely identification with a significant deterioration in credit quality.<br>– ECL calculation for credit facilities determined to be individually impaired. We also obtained an understanding of the latest developments in estimated future cash flows, current financial position and any rescheduling or restructuring agreements.<br>– Procedures followed for collaterals valuation in accordance with the evaluation policies of the Bank.<br>– Assessed the adequacy of the disclosures to the consolidated financial statements to ensure compliance with IFRS (9).<br>– With regard to the future assumptions used by the Bank to calculate ECL, we have discussed these assumptions with management and we have compared these assumptions with the available information. |

### Other information included in the Bank's 2023 Annual Report

Other information consists of the information included in the Bank's 2023 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

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- 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, 2023 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.

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License # 105/2003

April 29, 2024
Ramallah – Palestine

Consolidated Statement of Financial Position
As at December 31, 2023

| | Notes | 2023 U.S. $ | 2022 U.S. $ |
|---|---|---|---|
| ASSETS | | | |
| Cash and balances with Palestine Monetary Authority | 5 | 1,787,611,742 | 1,803,515,455 |
| Balances, deposits and investments at banks and financial institutions | 6 | 1,005,207,710 | 592,297,476 |
| Financial assets at fair value through profit or loss | 7 | 7,793,301 | 9,168,285 |
| Direct credit facilities and Islamic financing | 8 | 3,839,008,227 | 3,572,054,865 |
| Financial assets at fair value through other comprehensive income | 9 | 60,898,466 | 59,526,233 |
| Financial assets at amortized cost | 10 | 159,354,233 | 241,306,472 |
| Investment in associates and a joint venture | 11 | 11,858,121 | 11,996,852 |
| Investment properties | 12 | 24,776,440 | 22,930,742 |
| Property, plant and equipment and right of use assets | 13 | 102,657,226 | 109,275,425 |
| Deferred tax assets | 26 | 29,084,742 | - |
| Projects in progress | 14 | 2,268,294 | 649,543 |
| Intangible assets | 15 | 14,735,600 | 14,984,886 |
| Other assets | 16 | 80,806,646 | 50,254,623 |
| Total assets | | 7,126,060,748 | 6,487,960,857 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Palestine Monetary Authority's deposits | 17 | 203,422,416 | 199,103,950 |
| Banks and financial institutions' deposits | 18 | 204,538,769 | 93,668,011 |
| Customers' deposits | 19 | 5,478,560,065 | 4,966,613,355 |
| Cash margins | 20 | 329,167,229 | 300,110,487 |
| Subordinated loan | 21 | 45,000,000 | 60,000,000 |
| Loans and borrowings | 22 | 74,045,601 | 77,656,331 |
| Istidama loans from Palestine Monetary Authority | 23 | 23,405,534 | 32,110,614 |
| Deferred tax liabilities | 26 | 2,686,546 | - |
| Lease liabilities | 24 | 27,094,674 | 30,105,511 |
| Sundry provisions | 25 | 53,091,860 | 52,355,497 |
| Taxes provisions | 26 | 21,960,224 | 35,440,008 |
| Other liabilities | 27 | 102,727,448 | 94,874,472 |
| Total liabilities | | 6,565,700,366 | 5,942,038,236 |
| Equity | | | |
| Paid-in share capital | 1 | 230,677,334 | 223,958,577 |
| Additional paid-in capital | 28 | 29,575,688 | 29,575,688 |
| Perpetual bonds | 29 | 30,000,000 | - |
| Statutory reserve | 30 | 69,285,414 | 67,974,894 |
| Voluntarily reserve | 30 | 246,361 | 246,361 |
| General Banking risks reserve | 30 | 8,374,676 | 8,374,676 |
| Pro-cyclicality reserve | 30 | 40,000,000 | 40,000,000 |
| Fair value reserve | 9 | (106,169) | 3,344,655 |
| Retained earnings | | 86,452,694 | 107,929,885 |
| Equity attributable to the Bank's shareholders | | 494,505,998 | 481,404,736 |
| Non-controlling interests | 4 | 65,854,384 | 64,517,885 |
| Total equity | | 560,360,382 | 545,922,621 |
| Total liabilities and equity | | 7,126,060,748 | 6,487,960,857 |

The accompanying notes from 1 to 56 are an integral part of these consolidated financial statements.

## Consolidated Income Statement
For the year ended December 31, 2023

| | Notes | 2023<br>U.S. $ | 2022<br>U.S. $ |
|---|---|---|---|
| Interest income | 32 | 228,394,210 | 190,311,172 |
| Interest expense | 33 | (37,566,523) | (30,298,572) |
| Net interest income | | 190,827,687 | 160,012,600 |
| Net financing and investment income | 34 | 61,077,325 | 56,155,334 |
| Net commissions income | 35 | 38,099,503 | 40,114,898 |
| Net interest, financing, investment and commissions income | | 290,004,515 | 256,282,832 |
| Foreign currencies gains | | 26,709,780 | 28,036,643 |
| Net gains from financial assets portfolio | 36 | 2,627,960 | 1,384,594 |
| Bank's share of results of associates and a joint venture | 11 | 177,013 | 2,625,800 |
| Revaluation of investment properties | 12 | 181,533 | (16,723) |
| Other revenues, net | 37 | 8,103,011 | 9,230,606 |
| Gross profit before expected credit losses provisions and other losses | | 327,803,812 | 297,543,752 |
| Provision for expected credit losses on direct credit facilities and Islamic financing and other receivables, net | 8 & 16 | (100,009,801) | (24,637,541) |
| Provision for expected credit losses on investments, indirect credit facilities and Islamic financing, and other assets impairments, net | 40 | (35,702,367) | (3,816,883) |
| Gross profit | | 192,091,644 | 269,089,328 |
| Expenses | | | |
| Personnel expenses | 38 | (88,436,910) | (85,654,173) |
| Other operating expenses | 39 | (67,667,316) | (58,201,126) |
| Depreciation and amortization | 13 & 15 | (17,991,164) | (17,871,196) |
| Palestine Monetary Authority's fines | 41 | (60,000) | (25,000) |
| Total expenses | | (174,155,390) | (161,751,495) |
| Profit before taxes | | 17,936,254 | 107,337,833 |
| Taxes expense | 26 | (1,445,740) | (40,691,196) |
| Profit for the year | | 16,490,514 | 66,646,637 |
| Attributable to: | | | |
| Equity holders of the Bank | | 13,105,203 | 60,912,868 |
| Non-controlling interests | 4 | 3,385,311 | 5,733,769 |
| | | 16,490,514 | 66,646,637 |
| Basic and diluted earnings per share attributable to equity holders of the Bank | 43 | 0.04 | 0.26 |

The accompanying notes from 1 to 56 are an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended December 31, 2023

| | Note | 2023<br>U.S. $ | 2022<br>U.S. $ |
|---|---|---|---|
| Profit for the year | | 16,490,514 | 66,646,637 |
| Items of other comprehensive income: | | | |
| Items not to be reclassified to the consolidated income statement in subsequent periods: | | | |
| Change in fair value of financial assets through other comprehensive income items | | (3,484,624) | 4,658,654 |
| Other comprehensive income items for the year | | (3,484,624) | 4,658,654 |
| Total comprehensive income for the year | | 13,005,890 | 71,305,291 |
| | | | |
| Attributable to: | | | |
| Equity holders of the Bank | | 9,654,379 | 65,598,280 |
| Non-controlling Interests | 4 | 3,351,511 | 5,707,011 |
| | | 13,005,890 | 71,305,291 |

The accompanying notes from 1 to 56 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity
## For the year ended December 31, 2023

| | Equity attributable to the Bank's shareholders | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Reserves | | | | | | | | |
| 2023 | Paid-in share capital | Additional paid-in capital | Perpetual bond | Statutory | Voluntarily | General banking risks | Pro-cyclicality | Fair value | Retained earnings | Equity holders of the Bank | Non-controlling interests | Total equity |
| | U.S. $ | 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 | 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 |
| Profit for the year | - | - | - | - | - | - | - | - | 13,105,203 | 13,105,203 | 3,385,311 | 16,490,514 |
| Other comprehensive income | - | - | - | - | - | - | - | (3,450,824) | - | (3,450,824) | (33,800) | (3,484,624) |
| Total comprehensive income for the year | - | - | - | - | - | - | - | (3,450,824) | 13,105,203 | 9,654,379 | 3,351,511 | 13,005,890 |
| Transfers to reserves | - | - | - | 1,310,520 | - | - | - | - | (1,310,520) | - | - | - |
| Issuance of perpetual bond (note 29) | - | - | 30,000,000 | - | - | - | - | - | - | 30,000,000 | - | 30,000,000 |
| Interest on perpetual bond | - | - | - | - | - | - | - | - | (3,711,667) | (3,711,667) | - | (3,711,667) |
| Perpetual bond issuance fees | - | - | - | - | - | - | - | - | (450,000) | (450,000) | - | (450,000) |
| Cash dividends (note 31) | - | - | - | - | - | - | - | - | (22,395,858) | (22,395,858) | (2,015,012) | (24,410,870) |
| Stock dividends (note 31) | 6,718,757 | - | - | - | - | - | - | - | (6,718,757) | - | - | - |
| Fractions of stocks | - | - | - | - | - | - | - | - | 4,408 | 4,408 | - | 4,408 |
| Balance, end of the year | 230,677,334 | 29,575,688 | 30,000,000 | 69,285,414 | 246,361 | 8,374,676 | 40,000,000 | (106,169) | 86,452,694 | 494,505,998 | 65,854,384 | 560,360,382 |

| | Equity attributable to the Bank's shareholders | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | |
| 2022 | 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 |
| | 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 31) | 6,525,050 | - | - | - | - | - | - | (6,525,050) | - | - | - |
| Cash dividends (note 31) | - | - | - | - | - | - | - | (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 |

The accompanying notes from 1 to 56 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows
## For the year ended December 31, 2023

| | Note | 2023<br>U.S. $ | 2022<br>U.S. $ |
|---|---|---|---|
| Operating activities | | | |
| Profit for the year before taxes | | 17,936,254 | 107,337,833 |
| Adjustments for: | | | |
| Depreciation and amortization | | 17,991,164 | 17,871,196 |
| Net gains from financial assets portfolio | | (2,627,960) | (1,384,594) |
| Provision for expected credit losses and other losses, net | | 104,409,434 | 28,454,424 |
| Finance cost on lease liabilities | | 734,199 | 781,680 |
| Sundry provisions | | 10,735,198 | 10,641,157 |
| Revaluation of investment properties, net | | (181,533) | 16,723 |
| Bank's share of results of associates and a joint venture | | (177,013) | (2,625,800) |
| Gains on disposal of property, plant and equipment and right of use assets | | (158,897) | (273,412) |
| Other non-cash items | | (2,051,715) | (1,604,569) |
| | | 146,609,131 | 159,214,638 |
| Changes in assets and liabilities: | | | |
| Direct credit facilities and Islamic financing | | (366,518,702) | (145,632,517) |
| Statutory cash reserve | | (28,748,693) | (15,577,727) |
| Other assets | | (31,825,496) | (5,772,750) |
| Customers' deposits | | 511,946,710 | (46,937,971) |
| Istidama loans | | (8,705,080) | 9,803,062 |
| Cash margins | | 29,056,742 | 8,522,211 |
| Other liabilities | | 4,203,444 | (1,767,550) |
| Net cash flows from (used in) operating activities before taxes and paid provisions | | 256,018,056 | (38,148,604) |
| Taxes and advances payments | | (39,820,380) | (27,278,003) |
| Sundry provision payments | | (9,998,835) | (9,268,983) |
| Net cash flows from (used in) operating activities | | 206,198,841 | (74,695,590) |
| Investing activities | | | |
| Purchase of financial assets at fair value through profit or loss and through other comprehensive income | | (5,569,005) | (14,756,699) |
| Sale of financial assets at fair value through profit or loss and through other comprehensive income | | 2,066,459 | 2,195,555 |
| Purchase of financial assets at amortized cost | | (54,844,119) | (77,145,671) |
| Maturated financial assets at amortized cost | | 137,486,396 | 66,330,000 |
| Deposits at banks and financial institutions maturing in more than three months | | (23,462,624) | (19,040,903) |
| Changes in restricted balances of withdrawal | | 916,346 | 8,007,986 |
| Palestine Monetary Authority deposits for a period more than three months | | (34,431,677) | 2,683,728 |
| Banks and financial institutions' deposits maturing in more than three months | | (2,932,086) | (2,067,914) |
| Investments management commission | | (465,081) | (544,438) |
| Stock dividends received | | 3,429,455 | 3,263,423 |
| Intangible assets | | (2,095,721) | (2,699,011) |
| Projects in progress | | (2,680,035) | (430,572) |
| Investment properties | | (1,810,165) | 2,958,000 |
| Purchase of property, plant and equipment | | (7,363,143) | (5,742,589) |
| Sale of property, plant and equipment | | 305,255 | 417,564 |
| Net cash flows from (used in) investing activities | | 8,550,255 | (36,571,541) |
| Financing activities | | | |
| Lease liabilities payments | | (5,234,582) | (4,694,147) |
| Subordinated loan payment | | (15,000,000) | (12,500,000) |
| Cash dividends paid | | (23,768,316) | (21,587,892) |
| Loans and borrowings | | (3,981,042) | 29,213,831 |
| Interest paid on perpetual bond | | (3,529,777) | - |
| Issuance of perpetual bond, net of issuances fees | | 29,550,000 | - |
| Fractions of stock dividends sold | | 4,408 | 4,430 |
| Net cash flows used in financing activities | | (21,959,309) | (9,563,778) |
| Increase (decrease) in cash and cash equivalents | | 192,789,787 | (120,830,909) |
| Cash and cash equivalents, beginning of the year | | 1,616,419,703 | 1,737,250,612 |
| Cash and cash equivalents, end of the year | 42 | 1,809,209,490 | 1,616,419,703 |
| | | | |
| Interest expense paid | | 44,128,941 | 38,932,857 |
| Interest revenue received | | 226,294,253 | 252,452,643 |

The accompanying notes from 1 to 56 are an integral part of these consolidated financial statements.

1. General

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

The authorized capital of the Bank consists of 300 million shares with a par value of U.S. $ 1 per share, after it was increased from 250 million shares according to the decision of the extraordinary general assembly, which was held on April 5, 2023. The general assembly of the Bank approved in its ordinary meeting held on March 31, 2021, the increase of the paid-in capital of the Bank by a total of 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, increasing the paid-in share capital of the Bank to U.S. $ 223,958,577 as at December 31, 2022. Additionally, during its ordinary meeting held on April 5, 2023, the general assembly approved increasing the Bank's paid-in capital by U.S. $ 6,718,757 through stock dividends, increasing the paid-in capital of the Bank to U.S. $ 230,677,334 as at December 31, 2023.

One of the most important objectives of the Bank is to carry out all of the Banking activities which include opening current account, letter of credit, accepting deposits and lending money through its branches spread in Palestine, which consists of (29) branches and (43) offices and one electronic office. The number of external representative offices of the Bank licensed by the Palestine Monetary Authority reached two, one in Dubai in the United Arab Emirates and the other in Chile, in which the later was closed during the year.

The number of branches of Arab Islamic Bank (a subsidiary) is (22) branches and (7) offices, in addition to one mobile office, one external representative office in Dubai in the United Arab Emirates, and a mobile branch.

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 Palestine Monetary Authority (PMA).

The Bank's personnel (head quarter and branches) reached (1,790) employees and (1,799) employees as at December 31, 2023 and 2022, respectively. The subsidiaries' personnel reached (782) employees against (778) employees as at December 31, 2023 and 2022, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (03/2024) dated April 25, 2024.

## 2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2023.

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

| | Country of incorporation and operations | Ownership % 2023 | Ownership % 2022 | Subscribed capital U.S. $ 2023 | Subscribed capital U.S. $ 2022 |
|---|---|---|---|---|---|
| Arab Islamic Bank* | Palestine | 52.06 | 52.06 | 101,119,252 | 96,219,252 |
| 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 March 28, 2023, decided to capitalize the amount of U.S. $4,900,000 from retained earnings and included it to the capital base and distribute stock dividends to shareholders bringing the authorized and paid-in capital of the Bank as at December 31, 2023 to U.S. $ 101,119,252.

** 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 ordinary general assembly of PalPay, decided in its meeting held on October 5, 2023, to distribute dividends in the amount of U.S. $ 650,000. The non-controlling interest's share of dividends amounted to U.S $97,500.

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, financial derivatives 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, 2023. 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.

When the Bank's ownership percentage in the invested company's capital is less than the majority, the Bank shall take into account all the facts and circumstances to assess whether control has been achieved over the investee company which includes the following:

- Contractual agreements with other shareholders of the investee company
- Rights resulting from other contractual agreements
- Bank voting rights and potential voting rights

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.

Profits or losses and each other item of comprehensive income are charged to the shareholders' equity in the parent company and the rights of non-controlling interest, even if this results in a deficit in the rights balance of non-controlling interest. If necessary, the financial statements of the subsidiaries are amended to align their accounting policies with the accounting policies of the Bank. All assets, liabilities, equity, income and expenses, profit and loss and dividends related to transactions between the Bank and its subsidiaries are excluded.

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 policies

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 effective as of January 1, 2023 shown below:

International Tax Reform–Pillar Two Model Rules – Amendments to IAS (12)

The amendments to IAS (12) have been introduced in response to the OECD’s BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

- An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
- An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after January 1, 2023, but not for any interim periods ending on or before December 31, 2023.

The Bank has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 26% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank's consolidated financial statements at December 31, 2023.

Deferred tax related to assets and liabilities arising from a single transaction - amendments to IAS (12)

In May 2021, the International Accounting Standards Board issued amendments to International Accounting Standard IAS (12), which narrow the scope of the initial recognition exception under IAS 12. As a result, the exception no longer applies to transactions that result in equal taxable and deductible temporary differences.

The amendments should be applied to transactions occurring on or after the beginning of the earliest comparative period presented. Additionally, at the start of the earliest comparative period presented, a deferred tax asset (provided there is sufficient taxable profit available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and the derecognition of liabilities must also be recognized.

These amendments were applied starting from January 1, 2023, and apply to changes in accounting policies and changes in accounting estimates occurring on or after the beginning of that period. Early application is permitted as long as it is disclosed.

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

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

The amendments to IAS (1) and IFRS Practice Statement (2) Making Materiality Judgements provide 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 have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition, or presentation of any items in the Bank's consolidated financial statements.

IFRS (17) Insurance Contracts

IFRS (17) Insurance Contracts IFRS (17) is effective for reporting periods beginning on or after January 1, 2023. 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. Limited scope exceptions apply.

Other than the exceptions outlined below, the Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS (17) does not have a material impact on the consolidated financial statements for the year ended December 31, 2023.

As part of this determination, the Bank assessed credit cards and similar products that include insurance coverage. IFRS (17) excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Bank has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS (17).

For loan contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS (9) or IFRS (17) to such contracts. This choice is made at a portfolio level and is irrevocable. The Bank has made an irrevocable choice to apply IFRS (9) to each portfolio of these products.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's consolidated financial statements.

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 January 1, 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's consolidated financial statements.

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:

Amendments to IFRS (16): Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS (16) to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS (16). Earlier application is permitted, and that fact must be disclosed.

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

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

In January 2020 and October 2022, 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

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after January 1, 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's consolidated financial statements.

Supplier Finance Arrangements - Amendments to IAS (7) and IFRS (7)

In May 2023, the IASB issued amendments to IAS (7) Statement of Cash Flows and IFRS (7) Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after January 1, 2024. Early adoption is permitted but will need to be disclosed.

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

## 3.5 Material Accounting Policy Information

### 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.

Derecognition of financial assets and liabilities

*Derecognition due to substantial modification of terms and conditions*

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

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

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

*Derecognition other than for substantial modification.*

A. Financial assets

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

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

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

Or

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

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

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

A transfer only qualifies for derecognition if either:

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

Or

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

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

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

### Perpetual bond

A perpetual bond is a subordinated bond that is not backed by a guarantee and is classified as an equity item in accordance with International Accounting Standard IAS (32): Financial Instruments - Presentation. Interest payments related to these bonds may be canceled (in whole or in part) in accordance with the Bank’s decision on the basis that the interest is not accumulating. Any cancellation will not be considered a delay in payment. Interest payments are treated as a reduction in equity and appear among other changes in the statement of changes in equity. These bonds do not have a maturity date and can be called (in whole or in part) at the nominal value according to the Bank’s choice on the call date and on each interest payment date thereafter. These bonds appear at the original issued value and no amendments are made to them unless they are called in whole or in part, in which case they are reduced by the value of the amounts paid.

### 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.

In the event that the Bank loses influence over the associate, it shows the remaining investment at fair value. Any differences between the book value of the associate and the fair value of the remaining investment and the proceeds from the sale at the date of loss of effective influence are recorded 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.

Investment properties are derecognized when they are no longer in use and no future economic benefits are expected from their sale. The difference between the proceeds from the disposal of the asset and the book value is recorded in the consolidated income statement in the disposal period.

Transfers are made to or from investment properties only when there is a change in use. When transferring from investments properties to property, plant and equipment that is used by the Bank, the cost of the properties transferred for use is its book value on the date of transfer. If the property, plant and equipment is converted into investment properties, the Bank continues to use the accounting policies for property, plant and equipment until the date of the change in use.

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.

Deferred tax assets and deferred tax liabilities are offset and the net amount is shown in the consolidated financial statements only when binding legal rights are available, as well as when they are settled on the basis of an offset, or the assets are realized and the liabilities are settled at the same time.

### 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).

Dividends

The Bank recognizes liabilities in exchange for the cash dividends approved by the Bank's shareholders at the general assembly meeting, and this amount is recognized in the consolidated statement of changes in equity.

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 48)
- Capital management (note 50)

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.

Provisions for other financial assets

Provisions on other financial assets are calculated according to management's best estimates so that their value is determined reasonably and objectively.

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.

The deferred tax assets are calculated on the stage one and two expected credit losses balances related to direct credit facilities in addition to end-of-service provision balance, while the deferred tax liabilities are calculated on the gains from the revaluation of investment properties. These deferred taxes were recorded due to the presence of temporary time differences as at the date of the consolidated statement of financial position. Deferred taxes are recognized to the extent that it is probable that taxable profit will be available against which they can be utilized. This requires significant management judgment to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable earnings, along with future tax planning strategies.

The Bank used the expected value method to calculate the tax base for deferred tax assets, which represents the sum of the weighted amounts of several possibilities within the range of a number of possible outcomes, because this method helps better in the case of uncertainty if there is a group of possible outcomes that are neither binary nor concentrated in one value, Therefore, deferred tax assets were not fully recognized. Has the bank recognized all unrecognized deferred tax assets, the bank's profits and equity would be increased by U.S. $16 million.

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.

Going concern principle

These consolidated financial statements have been prepared on a going concern basis. The Board of Directors believes that all available measures are being taken to maintain the Bank's continuity and to continue the operations in the current business environment and economic conditions as indicated in note (56), noting that the majority of the Bank's business, revenues and cash flows are achieved in the West Bank.

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 | 2023 % | 2022 % |
|---|---|---|---|
| Arab Islamic Bank | Palestine | 47.94 | 47.94 |
| PalPay | Palestine | 15 | 15 |

Balances of non-controlling interests of the material subsidiaries:

| | 2023 U.S. $ | 2022 U.S. $ |
|---|---|---|
| Arab Islamic Bank | 65,600,022 | 64,154,330 |
| PalPay | 254,362 | 363,555 |
| | 65,854,384 | 64,517,885 |

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

| | 2023 U.S. $ | 2022 U.S. $ |
|---|---|---|
| Arab Islamic Bank | 3,397,004 | 5,758,523 |
| PalPay | (11,693) | (24,754) |
| | 3,385,311 | 5,733,769 |
| Share of non-controlling interest in comprehensive income items | (33,800) | (26,758) |
| | 3,351,511 | 5,707,011 |

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, 2023:

| | Arab Islamic Bank U.S. $ | PalPay U.S. $ |
|---|---|---|
| Total assets | 1,738,370,083 | 7,923,583 |
| Total liabilities | (1,597,366,185) | (4,533,033) |
| Total equity | 141,003,898 | 3,390,550 |
| Attributable to: | | |
| Bank's shareholders | 75,403,876 | 3,136,188 |
| Non-controlling interests | 65,600,022 | 254,362 |
| | 141,003,898 | 3,390,550 |

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 income statement information for the year ended December 31, 2023:

| | Arab Islamic Bank | PalPay |
|---|---|---|
| | U.S. $ | U.S. $ |
| Revenues | 83,875,576 | 14,118,102 |
| General and administrative expenses | (48,625,753) | (12,879,587) |
| Depreciation and amortization | (4,656,339) | (269,423) |
| Provision for expected credit losses on investments, facilities, and indirect credit financing, net | (25,027,436) | (27,453) |
| Other revenues | 992,068 | 1,567 |
| Profit before tax | 6,558,116 | 943,206 |
| Income tax | (1,038,410) | (203,416) |
| Profit of the year | 5,519,706 | 739,790 |
| Other comprehensive income items of the year | 200,655 | - |
| Total comprehensive income of the year | 5,720,361 | 739,790 |

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 statement of cash flows information for the year ended December 31, 2023:

| | Arab Islamic Bank | PalPay |
|---|---|---|
| | U.S. $ | U.S. $ |
| Operating activities | (6,571,631) | 1,917,146 |
| Investing activities | (12,942,159) | (308,996) |
| Financing activities | (35,712,212) | (52,174) |
| (Decrease) Increase in cash and cash equivalents | (55,226,002) | 1,555,976 |

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 |

5. Cash and balances with Palestine Monetary Authority

This item comprises the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash on hand * | 1,193,564,220 | 1,284,204,819 |
| Balances with Palestine Monetary Authority: | | |
| Current and 0n-demand accounts | 49,210,088 | 13,407,516 |
| Swap deposits maturing within 3 months or less | 27,600,000 | 17,277,856 |
| Statutory cash reserve | 519,244,716 | 490,496,023 |
| | 1,789,619,024 | 1,805,386,214 |
| Less: provision for expected credit losses | (2,007,282) | (1,870,759) |
| | 1,787,611,742 | 1,803,515,455 |

* This item is presented net of incurred cash losses due to the war on Gaza amounted to U.S. $ 31,302,734 (notes 40 and 54).

- Cash on hand includes amounts held by The Palestinian Company for Money and Valuables Transfer (Aman) (associate) related to cash shipment and ATM feeding which amounted to U.S. $ 17,685,014 and U.S. $ 16,780,887 as at December 31, 2023 and December 31, 2022, 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 dormant 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. In accordance with Instruction No. (2) for the year 2012, the outstanding balance for facilities granted in the city of Jerusalem for certain sectors is reduced before calculating the mandatory cash reserve.
- The Palestine Monetary Authority does not pay any interest on the balances of the statutory reserve, current accounts and on-demand accounts.

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 521,181,395 | - | - | 521,181,395 |
| Net change during the year | 74,873,409 | - | - | 74,873,409 |
| Balance, end of the year | 596,054,804 | - | - | 596,054,804 |

| | 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 1,870,759 | - | - | 1,870,759 |
| Net re-measurement of expected credit losses | 136,523 | - | - | 136,523 |
| Balance, end of the year | 2,007,282 | - | - | 2,007,282 |

| | 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 |

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

This item comprises the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Local Banks and financial institutions: | | |
| Current accounts | 1,507,383 | 672,531 |
| Swap deposits maturing within 3 months or less | 72,197,163 | 15,655,852 |
| Deposits maturing within 3 months or less | 23,000,000 | - |
| | 96,704,546 | 16,328,383 |
| Foreign Banks and financial institutions: | | |
| Current and on-demand accounts | 120,465,064 | 193,937,234 |
| Deposits maturing within 3 months or less | 720,965,151 | 334,507,934 |
| Deposits maturing after 3 months | 55,503,527 | 32,040,903 |
| Swap deposits maturing within 3 months or less | 6,000,000 | 10,000,000 |
| | 902,933,742 | 570,486,071 |
| Investments at foreign Islamic Banks: | | |
| Investments maturing within 3 months | 2,689,727 | 3,108,626 |
| Investments maturing after 3 months | 6,000,000 | 6,000,000 |
| | 8,689,727 | 9,108,626 |
| | 1,008,328,015 | 595,923,080 |
| Less: provision for expected credit losses | (3,120,305) | (3,625,604) |
| | 1,005,207,710 | 592,297,476 |

Non-interest or profits bearing balances at banks and financial institutions as at December 31, 2023 and 2022 amounted to U.S. $ 149,937,062 and U.S.$ 245,984,167, respectively.

Restricted balances at banks and financial institutions as at December 31, 2023 and 2022 amounted to U.S. $ 74,907,482 and U.S. $ 75,823,828, respectively.

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 592,814,454 | - | 3,108,626 | 595,923,080 |
| Net change during the year | 376,112,900 | 36,710,935 | (418,900) | 412,404,935 |
| Balance, end of the year | 968,927,354 | 36,710,935 | 2,689,726 | 1,008,328,015 |

| | 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 516,978 | - | 3,108,626 | 3,625,604 |
| Net re-measurement of expected credit losses | (105,610) | 19,210 | (418,899) | (505,299) |
| Balance, end of the year | 411,368 | 19,210 | 2,689,727 | 3,120,305 |

| | 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 |

## 7. Financial assets at fair value through profit or loss

This item represents the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Shares quoted in Palestine securities exchange | 577,558 | 644,040 |
| Shares quoted in Foreign Financial Markets | 991,515 | 858,742 |
| Investments in financial portfolio | 3,289,869 | 3,484,850 |
| Unquoted shares | 2,934,359 | 4,180,653 |
| | 7,793,301 | 9,168,285 |

The Bank recognized cash dividends from financial assets at fair value through profit or loss amounting to U.S. $ 284,282 as at December 31, 2023, compared to U.S. $ 488,773 as at December 31, 2022 (note 36).

The Bank recognized losses from revaluation in the consolidated income statement amounting to U.S. $ 18,020 as of December 31, 2023, compared to losses from revaluation of U.S. $ 1,048,479 as at December 31, 2022 (note 36).

8. Direct credit facilities and Islamic financing

This item comprises the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Retail | | |
| Loans* | 881,648,030 | 820,116,946 |
| Overdraft accounts | 3,138,472 | 2,432,321 |
| Credit cards | 24,577,858 | 22,924,591 |
| Current overdrafts | 71,832,720 | 53,128,046 |
| Islamic financing | 304,652,665 | 274,709,972 |
| Large corporate and local regulators | | |
| Loans * | 657,953,072 | 656,733,866 |
| Overdraft accounts | 120,293,649 | 108,060,343 |
| Credit cards | 288,364 | 368,785 |
| Current overdrafts | 2,916,047 | 2,392,858 |
| Islamic financing | 557,715,918 | 468,672,718 |
| Small and medium enterprises | | |
| Loans * | 453,618,611 | 407,591,403 |
| Overdraft accounts | 109,588,232 | 92,290,952 |
| Credit cards | 6,278,202 | 5,726,913 |
| Current overdrafts | 12,586,024 | 4,560,216 |
| Islamic financing | 129,034,601 | 131,787,257 |
| Palestine National Authority | | |
| Loans * | 359,489,003 | 276,578,704 |
| Overdraft accounts and current overdrafts | 262,216,167 | 275,596,256 |
| Islamic financing | 163,786,656 | 174,559,455 |
| | 4,121,614,291 | 3,778,231,602 |
| Suspended interests, commissions and profits | (17,891,796) | (17,915,869) |
| Provision for expected credit losses | (264,714,268) | (188,260,868) |
| | 3,839,008,227 | 3,572,054,865 |

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 17,915,869 | 22,097,961 |
| Suspended interests and profits during the year | 8,061,026 | 4,631,820 |
| Suspended interests and profits transferred to revenues during the year | (3,165,609) | (3,754,246) |
| Suspended interest and profits related to credit facilities and Islamic financing being default for more than 6 years | (4,315,965) | (2,574,966) |
| Suspended interests written off | (677,183) | (2,473,847) |
| Currency variance | 73,658 | (10,853) |
| Balance, end of the year | 17,891,796 | 17,915,869 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 2,273,680,717 | 1,312,724,209 | 191,826,676 | 3,778,231,602 |
| Net change during the year | 300,567,950 | 73,223,589 | (1,141,191) | 372,650,348 |
| Transfers to stage (1) | 207,402,238 | (206,945,442) | (456,796) | - |
| Transfers to stage (2) | (379,511,839) | 382,726,509 | (3,214,670) | - |
| Transfers to stage (3) | (28,797,176) | (45,083,125) | 73,880,301 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (26,478,755) | (26,478,755) |
| Facilities written off | - | - | (2,788,904) | (2,788,904) |
| Balance, end of the year | 2,373,341,890 | 1,516,645,740 | 231,626,661 | 4,121,614,291 |

| | 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) | (22,676,555) | 146,245,064 |
| 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 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (8,694,307) | (8,694,307) |
| Facilities written off | - | - | (4,395,247) | (4,395,247) |
| Balance, end of the year | 2,273,680,717 | 1,312,724,209 | 191,826,676 | 3,778,231,602 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 20,109,791 | 65,308,073 | 102,843,004 | 188,260,868 |
| Transfers to stage (1) | 2,399,834 | (2,192,987) | (206,847) | - |
| Transfers to stage (2) | (1,460,879) | 2,945,185 | (1,484,306) | - |
| Transfers to stage (3) | (98,027) | (8,256,962) | 8,354,989 | - |
| Net re-measurement of expected credit losses | 801,350 | 54,887,598 | 45,293,365 | 100,982,313 |
| Excluding defaulted direct credit facilities and Islamic financing provisions for more than 6 years | - | - | (22,162,790) | (22,162,790) |
| Recovery of written off facilities | - | - | 86,707 | 86,707 |
| Provision written off | - | - | (2,111,721) | (2,111,721) |
| Foreign currency exchange differences | - | - | (341,109) | (341,109) |
| Balance, end of the year | 21,752,069 | 112,690,907 | 130,271,292 | 264,714,268 |

| | 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 | - |
| Net re-measurement of expected credit losses | (797,628) | 19,189,022 | 8,111,883 | 26,503,277 |
| Excluding 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 |
| Provision written off | - | - | (1,921,400) | (1,921,400) |
| 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 443,487,668 | 688,391,296 | 41,432,912 | 1,173,311,876 |
| Net change during the year | 100,869,697 | 16,017,388 | 1,505,218 | 118,392,303 |
| Transfers to stage (1) | 41,823,564 | (41,441,401) | (382,163) | - |
| Transfers to stage (2) | (216,844,397) | 219,255,961 | (2,411,564) | - |
| Transfers to stage (3) | (12,615,160) | (15,098,957) | 27,714,117 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (3,775,674) | (3,775,674) |
| Facilities written off | - | - | (2,078,760) | (2,078,760) |
| Balance, end of the year | 356,721,372 | 867,124,287 | 62,004,086 | 1,285,849,745 |

| | 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 | 51,665,030 | 46,112,869 | 714,365 | 98,492,264 |
| 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 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (1,786,035) | (1,786,035) |
| Facilities written off | - | - | (1,921,400) | (1,921,400) |
| Balance, end of the year | 443,487,668 | 688,391,296 | 41,432,912 | 1,173,311,876 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 586,473 | 34,197,607 | 20,472,102 | 55,256,182 |
| Transfers to stage (1) | 656,879 | (484,442) | (172,437) | - |
| Transfers to stage (2) | (589,564) | 1,709,924 | (1,120,360) | - |
| Transfers to stage (3) | (26,577) | (305,285) | 331,862 | - |
| Net re-measurement of expected credit losses | 331,900 | 10,240,853 | 16,958,234 | 27,530,987 |
| Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years | - | - | (2,427,667) | (2,427,667) |
| Provision written off | - | - | (2,078,760) | (2,078,760) |
| Balance, end of the year | 959,111 | 45,358,657 | 31,962,974 | 78,280,742 |

| | 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 | - |
| Net re-measurement of expected credit losses | 313,762 | 10,750,408 | (1,789,672) | 9,274,498 |
| Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years | - | - | (1,785,421) | (1,785,421) |
| Provision written off | - | - | (1,921,400) | (1,921,400) |
| Foreign currency exchange differences | - | - | (4,435) | (4,435) |
| Balance, end of the year | 586,473 | 34,197,607 | 20,472,102 | 55,256,182 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 459,982,177 | 123,808,447 | 58,166,117 | 641,956,741 |
| Net change during the year | 25,067,538 | 53,328,230 | (4,598,885) | 73,796,883 |
| Transfer to stage (1) | 20,850,151 | (20,777,682) | (72,469) | - |
| Transfer to stage (2) | (78,603,759) | 79,406,007 | (802,248) | - |
| Transfer to stage (3) | (13,757,943) | (11,847,163) | 25,605,106 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (4,614,993) | (4,614,993) |
| Facilities written off | - | - | (32,961) | (32,961) |
| Balance, end of the year | 413,538,164 | 223,917,839 | 73,649,667 | 711,105,670 |

| | 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 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (4,005,219) | (4,005,219) |
| Balance, end of the year | 459,982,177 | 123,808,447 | 58,166,117 | 641,956,741 |

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:

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 1,814,358 | 4,789,212 | 29,344,633 | 35,948,203 |
| Transfer to stage (1) | 432,510 | (399,941) | (32,569) | - |
| Transfer to stage (2) | (392,434) | 755,641 | (363,207) | - |
| Transfer to stage (3) | (72,851) | (689,860) | 762,711 | - |
| Net re-measurement of expected credit losses | (521,684) | 18,275,022 | 10,368,493 | 28,121,831 |
| Provision for defaulted credit facilities and Islamic financing for more than 6 years | - | - | (3,631,605) | (3,631,605) |
| Provision written off | - | - | (32,961) | (32,961) |
| Balance, end of the year | 1,259,899 | 22,730,074 | 36,415,495 | 60,405,468 |

| | 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 | - |
| Net re-measurement of expected credit losses | (2,167,658) | (157,098) | (2,729,447) | (5,054,203) |
| Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years | - | - | (4,005,219) | (4,005,219) |
| 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 |

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:

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 643,476,457 | 500,524,466 | 92,227,647 | 1,236,228,570 |
| Net change during the year | 115,873,304 | 3,877,971 | 1,952,476 | 121,703,751 |
| Transfer to stage (1) | 144,728,523 | (144,726,359) | (2,164) | - |
| Transfer to stage (2) | (84,063,683) | 84,064,541 | (858) | - |
| Transfer to stage (3) | (2,424,073) | (18,137,005) | 20,561,078 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (18,088,088) | (18,088,088) |
| Facilities written off | - | - | (677,183) | (677,183) |
| Balance, end of the year | 817,590,528 | 425,603,614 | 95,972,908 | 1,339,167,050 |

| | 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 | 127,394,848 | (61,422,592) | (10,766,557) | 55,205,699 |
| 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 | - |
| Excluding defaulted direct credit facilities and Islamic financing for more than 6 years | - | - | (2,903,053) | (2,903,053) |
| Facilities written off | - | - | (2,473,847) | (2,473,847) |
| Balance, end of the year | 643,476,457 | 500,524,466 | 92,227,647 | 1,236,228,570 |

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:

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 3,181,055 | 26,321,254 | 53,026,269 | 82,528,578 |
| Transfer to stage (1) | 1,310,445 | (1,308,604) | (1,841) | - |
| Transfer to stage (2) | (478,881) | 479,620 | (739) | - |
| Transfer to stage (3) | 1,401 | (7,261,817) | 7,260,416 | - |
| Net re-measurement of expected credit losses | (2,156,740) | 26,371,723 | 17,966,638 | 42,181,621 |
| Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years | - | - | (16,103,518) | (16,103,518) |
| Recovery of written off facilities | - | - | 86,707 | 86,707 |
| Foreign currency exchange differences | - | - | (341,109) | (341,109) |
| Balance, end of the year | 1,857,280 | 44,602,176 | 61,892,823 | 108,352,279 |

| | 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 | - |
| Net re-measurement of expected credit losses | 301,910 | 8,595,712 | 12,631,002 | 21,528,624 |
| 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 726,734,415 | - | - | 726,734,415 |
| Net change during the year | 58,757,411 | - | - | 58,757,411 |
| Balance, end of the year | 785,491,826 | - | - | 785,491,826 |

| | 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) |
| Balance, end of the year | 726,734,415 | - | - | 726,734,415 |

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:

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 14,527,905 | - | - | 14,527,905 |
| Expected credit losses during the year | 3,147,874 | - | - | 3,147,874 |
| Balance, end of the year | 17,675,779 | - | - | 17,675,779 |

| | 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 |
| Expected credit losses during the year | 754,358 | - | - | 754,358 |
| Balance, end of the year | 14,527,905 | - | - | 14,527,905 |

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:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 23,098,840 | 18,547,616 |
| Additions | 22,162,790 | 6,119,341 |
| Net recovery of provision during the year | (1,270,973) | (1,565,736) |
| Provision written off | (42,202) | (2,381) |
| Balance, end of the year | 43,948,455 | 23,098,840 |

* Loans are presented net of their related interest and commission received in advance which amounted to U.S. $ 4,707,555 and U.S. $ 3,472,296 as at December 31, 2023 and 2022, respectively. In addition, direct Islamic financing presented net of unearned profits amounted to U.S. $ 132,368,933 and U.S. $ 91,694,422 as at December 31, 2023 and 2022, respectively.

- Gross direct credit facilities and Islamic financing net of suspended interest, commissions and profits according to PMA regulations as at December 31, 2023 and 2022 amounted to U.S. $ 492,041,528 and U.S. $ 454,778,516 representing (11.99%) and (12.09%) 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, 2023 and 2022 amounted to U.S. $ 213,734,865 and U.S. $ 173,910,807 representing (5.21%) and (4.62%) of direct credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- According to PMA instructions No. (1/2008), defaulted credit facilities and Islamic financing for more than 6 years were excluded from the Bank's consolidated financial statements. The balance of provision and suspended interest and profits for the excluded credit facilities and Islamic financings amounted to U.S. $ 62,190,228 and U.S. $ 38,038,441 as at December 31, 2023 and 2022, respectively.
- Direct credit facilities and Islamic financing granted to Palestine National Authority as at December 31, 2023 and 2022 amounted to U.S. $ 785,491,826 and U.S. $ 726,734,415 representing (19.06%) and (19.23%) of gross direct credit facilities and Islamic financing, respectively.

- Direct credit facilities and Islamic financing guaranteed by Palestine National Authority as at December 31, 2023 and 2022 amounted to U.S. $ 12,810,564 and U.S. $ 16,293,051 representing (0.31%) and (0.43%) 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. $ 1,382,275,663 and U.S. $ 1,324,271,442 as at December 31, 2023 and 2022, respectively.
- Credit facilities and Islamic financing granted to non-residents amounted to U.S. $ 15,538,866 and U.S. $ 13,783,394 as at December 31, 2023 and 2022, respectively.
- Credit facilities and Islamic financing granted to the public sector employees as at December 31, 2023 and 2022 amounted to U.S. $ 602,677,190 and U.S. $ 594,457,998 representing (14.62%) and (15.73%) of gross direct credit facilities and Islamic financing, respectively. Which also represents (96.7%) and (99.80%) of regulatory capital as of December 31, 2023 and 2022, respectively.
- Credit facilities and Islamic financing granted to the green line Palestinian workers as at December 31, 2023 and 2022 amounted to U.S. $ 90,071,790 and U.S. $ 33,317,654 representing (2.19%) and (0.88%) of gross direct facilities and Islamic financing, respectively.

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Real estate and construction | 1,030,414,955 | 944,288,866 |
| Palestine National Authority | 785,491,826 | 726,734,415 |
| Consumer commodities | 795,671,483 | 705,890,768 |
| Retail and wholesale | 700,942,463 | 634,162,314 |
| Services sector | 360,383,882 | 387,353,934 |
| Manufacturing | 296,112,643 | 213,950,768 |
| Financial sector | 51,386,953 | 42,846,717 |
| Tourism | 38,442,192 | 40,350,558 |
| Transportation | 23,531,847 | 17,577,461 |
| Agricultural | 21,344,251 | 47,159,932 |
| | 4,103,722,495 | 3,760,315,733 |

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

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Granted amount | Outstanding balance | Guarantor share | Defaulted debts |
| Type of credit facilities | U.S. $ | U.S. $ | % | U.S. $ |
| Production loans | 23,228,179 | 16,332,862 | 70 | 2,909,964 |
| Operating loans | 34,433,724 | 24,006,018 | 50-75 | 624,792 |
| Development loans | 21,721,890 | 16,969,850 | 50 | 8,764,044 |
| Small and medium sized projects' loans | 34,698,149 | 23,776,446 | 50-75 | 2,077,470 |
| | 114,081,942 | 81,085,176 | | 14,376,270 |

| | 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 |

## 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, 2023 | | | | |
| Local | 22,546,179 | 8,979,789 | - | 31,525,968 |
| Foreign | 26,661,151 | 1,523,275 | 1,188,072 | 29,372,498 |
| | 49,207,330 | 10,503,064 | 1,188,072 | 60,898,466 |
| 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 |

The Bank recognized cash dividends from financial assets at fair value through other comprehensive income items listed in the local markets totaling U.S. $ 2,829,429 as at December 31, 2023, compared to U.S. $ 2,474,650 as at December 31, 2022 (note 36).

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 3,344,655 | (1,692,549) |
| Change in fair value through other comprehensive income items | (3,450,824) | 4,685,412 |
| Reserve of financial assets at fair value through comprehensive income recognized directly in retained earnings * | - | 351,792 |
| Balance, end of the year | (106,169) | 3,344,655 |

* The sales were made during the year 2022 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. $ |
| 2023 | | | | | | |
| Local | - | - | 12,500,000 | - | (260,608) | 12,239,392 |
| Foreign | 84,101,342 | 23,715,634 | - | 43,485,703 | (4,187,838) | 147,114,841 |
| | 84,101,342 | 23,715,634 | 12,500,000 | 43,485,703 | (4,448,446) | 159,354,233 |
| 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 229,674,446 | 13,518,617 | 3,423,325 | 246,616,388 |
| Net change during the year | (76,305,123) | (5,609,408) | - | (81,914,531) |
| Disposals during the year | - | - | (899,178) | (899,178) |
| Transfer to stage (2) | (18,297,228) | 18,297,228 | - | - |
| Balance, end of the year | 135,072,095 | 26,206,437 | 2,524,147 | 163,802,679 |

| | 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 1,786,677 | 99,914 | 3,423,325 | 5,309,916 |
| Net re-measurement of expected credit loss provision during the year | (1,008,352) | 1,046,060 | - | 37,708 |
| Disposals during the year | - | - | (899,178) | (899,178) |
| Transfer to stage (2) | (261,262) | 261,262 | - | - |
| Balance, end of the year | 517,063 | 1,407,236 | 2,524,147 | 4,448,446 |

| | 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 |

Interest on U.S. Dollar financial assets at amortized cost ranges between 3.25% and 12%.

Interest on Jordanian Dinar financial assets at amortized cost ranges between 3.17% and 6.49%.

Interest on Kuwaiti Dinar financial assets at amortized cost ranges between 5% and 7%.

Interest on Euro financial assets at amortized cost ranges between 5.18% and 5.74%.

Financial assets at amortized cost mature within a period from one month to 8 years.

Foreign governments' treasury bonds represent the Bank's investment in listed Jordanian treasury bonds, where the interest rate on these assets ranges from 3.17% to 6.49% and matures within a period of two months to three years.

Profits on Islamic Sukuk ranges between 3.23 % and 8.78 % and matures within a period from one month to eight years.

## 11. Investment in associates and a joint venture

Following are the details of investments in associates, as at December 31, 2023 and 2022:

| | Country of Incorporation | Ownership 2023 % | Ownership 2022 % | Subscribed Share Capital 2023 U.S. $ | Subscribed Share Capital 2022 U.S. $ |
|---|---|---|---|---|---|
| Abraj Co, for Development & Investment (Abraj) * | Palestine | 21 | 21 | 7,043,518 | 7,233,420 |
| The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman) ** | Palestine | 30 | 30 | 1,127,532 | 865,421 |
| Qudra for energy solutions*** | Palestine | 50 | 50 | 3,687,071 | 3,898,011 |
| | | | | 11,858,121 | 11,996,852 |

* 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 25 million shares at a U.S. $ 1 par value per share. During the year 2023, the General Assembly of Abraj decided to distribute cash dividends amounting to U.S. $ 1,500,000, with the Bank's share amounting to U.S. $ 315,744.

** 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 authorized and paid-in share capital consists of 1 million shares at a U.S. $ 1 par value per share as at December 31, 2023 and 2022.

*** Qudra Energy Solutions Company (Qudra) was incorporated as a private limited stock company during 2020 with a capital of 8 million shares with U.S. $ 1 par value per share. The bank owns 50% of the Qudra's shares. Qudra is jointly managed in cooperation with the he National Aluminum & profile company (NAPCO), so the company has been classified as a joint venture. Qudra works to provide modern renewable energy solutions to individuals and organizations. The authorized and paid-in share capital of Qudra as at December 31, 2023 amounted to U.S. $ 8 million. Qudra commenced its operational activities during 2021.

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

| | 2023 U.S. $ | 2022 U.S. $ |
|---|---|---|
| Balance, beginning of the year | 11,996,852 | 9,671,052 |
| Bank's share of results of associates | 387,953 | 2,671,724 |
| Bank's share of results of joint venture | (210,940) | (45,924) |
| Cash dividends | (315,744) | (300,000) |
| Balance, end of the year | 11,858,121 | 11,996,852 |

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

| | Abraj | | Aman | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| The financial position of associates: | | | | |
| Total assets | 55,012,771 | 51,671,050 | 5,027,182 | 4,825,643 |
| Total liabilities | (11,944,957) | (12,649,181) | (1,617,455) | (2,276,764) |
| Total equity | 43,067,814 | 39,021,869 | 3,409,727 | 2,548,879 |
| Bank's share | 9,044,241 | 8,194,593 | 1,022,918 | 764,664 |
| Book value before adjustments | 9,044,241 | 8,194,593 | 1,022,918 | 764,664 |
| Adjustments | (2,000,723) | (961,173) | 104,614 | 100,757 |
| Book value after adjustments | 7,043,518 | 7,233,420 | 1,127,532 | 865,421 |
| Revenues and results of operations: | | | | |
| Net revenues | 1,737,833 | 1,690,001 | 4,792,817 | 4,828,323 |
| Operational, administrative and general expenses | (826,185) | (678,520) | (3,724,449) | (3,727,204) |
| Finance costs | (308,516) | (240,893) | (49,008) | (48,045) |
| Gains (Losses) from revaluation of financial assets at fair value through profit and loss | - | 16,208,664 | (77,013) | - |
| Other revenues (expenses), net | 36,117 | (75,954) | 118,683 | (158,541) |
| Profit before tax | 639,249 | 16,903,298 | 1,061,030 | 894,533 |
| Tax expense | (40,000) | (5,084,629) | (187,327) | (261,857) |
| Net profit after tax of the year | 599,249 | 11,818,669 | 873,703 | 632,676 |
| Comprehensive income items | - | - | - | - |
| Total comprehensive income | 599,249 | 11,818,669 | 873,703 | 632,676 |
| Bank's share | 125,842 | 2,481,921 | 262,111 | 189,803 |

Following is the movement of the financial information related to the Banks' investment in Qudra (Joint Venture):

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Statement of financial position for joint venture | | |
| Total assets | 23,434,794 | 24,047,902 |
| Total liabilities | (16,060,651) | (16,251,880) |
| Net equity | 7,374,143 | 7,796,022 |
| Banks' share | 3,687,071 | 3,898,011 |
| Carrying amount of the investment | 3,687,071 | 3,898,011 |
| Revenues and results of operations | | |
| Revenues | 3,027,620 | 3,559,282 |
| Results of operations | (421,879) | (91,848) |
| Banks' share of results of operations of a joint venture | (210,940) | (45,924) |

## 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:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 22,930,742 | 25,962,178 |
| Additions during the year | 1,810,165 | 454,745 |
| Sale of investment properties * | - | (3,792,861) |
| Transferred to Islamic financing | (146,000) | - |
| Transfers from projects in progress (note 14) | - | 73,533 |
| Change in fair value during the year | 181,533 | 233,147 |
| Balance, end of the year | 24,776,440 | 22,930,742 |

* During the year 2022, 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.

The fair value of investment properties is determined based on an annual appraisal conducted by accredited independent appraisers.

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

| 2023 | 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 | 48,347,490 | 116,545,560 | 18,513,423 | 15,695,479 | 5,151,280 | 45,893,671 | 250,146,903 |
| Additions | 250,000 | 4,976,245 | 870,406 | 565,220 | 701,272 | 1,929,722 | 9,292,865 |
| Transfers from projects in progress | - | 674,631 | 324,687 | 18,546 | - | - | 1,017,864 |
| Disposals | - | (347,539) | (843,472) | (11,073) | (99,138) | (443,770) | (1,744,992) |
| Balance, end of the year | 48,597,490 | 121,848,897 | 18,865,044 | 16,268,172 | 5,753,414 | 47,379,623 | 258,712,640 |
| Accumulated Depreciation and Impairment: | | | | | | | |
| Balance, beginning of the year | 9,600,359 | 84,999,508 | 16,514,641 | 11,166,785 | 1,675,087 | 16,915,098 | 140,871,478 |
| Depreciation for the year | 633,008 | 6,822,075 | 1,003,242 | 1,949,811 | 376,989 | 4,817,612 | 15,602,737 |
| Impairment losses | 96,274 | 817,485 | 11,690 | - | 5,151 | - | 930,600 |
| Disposals | - | (275,648) | (843,412) | (11,073) | (24,731) | (194,537) | (1,349,401) |
| Balance, end of the year | 10,329,641 | 92,363,420 | 16,686,161 | 13,105,523 | 2,032,496 | 21,538,173 | 156,055,414 |
| Net book value | 38,267,849 | 29,485,477 | 2,178,883 | 3,162,649 | 3,720,918 | 25,841,450 | 102,657,226 |

| 2022 | Buildings and real estate * U.S. $ | Furniture and Equipment U.S. $ | Computers U.S. $ | Leasehold improvements U.S. $ | Vehicles U.S. $ | Right of use assets U.S. $ | Total 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 |

* 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, 2023 and 2022.

Property, plant and equipment include U.S. $ 84,413,693 and U.S. $ 83,399,376 of fully depreciated assets that are still used in the Bank's operations as at December 31, 2023 and 2022, respectively.

14. Projects in progress

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 649,543 | 1,366,792 |
| Additions | 2,680,035 | 577,541 |
| Transfers to investment properties (note 12) | - | (73,533) |
| Transfers to property, plant and equipment and intangible assets (note 13 & 15) | (1,061,284) | (1,221,257) |
| Balance, end of the year | 2,268,294 | 649,543 |

As at December 31, 2023 the estimated cost to complete projects in progress amounted to U.S. $ 2,450,004. These projects are expected to be completed during the year 2024.

15. Intangible assets

| | Goodwill* | Computer software | Total |
|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ |
| Cost | | | |
| Balance as at January 1, 2023 | 3,774,558 | 28,541,006 | 32,315,564 |
| Additions | - | 2,095,721 | 2,095,721 |
| Transfers from projects in progress (note 14) | - | 43,420 | 43,420 |
| Balance as at December 31, 2023 | 3,774,558 | 30,680,147 | 34,454,705 |
| Amortization | | | |
| Balance as at January 1, 2023 | - | 17,330,678 | 17,330,678 |
| Additions | - | 2,388,427 | 2,388,427 |
| Balance as at December 31, 2023 | - | 19,719,105 | 19,719,105 |
| Net Book Value | | | |
| As at December 31, 2023 | 3,774,558 | 10,961,042 | 14,735,600 |

| | 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 |

* 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, 2023 and 2022. The book value of the investment was also compared to its market value, 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:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Clearing checks | 19,878,966 | 2,997,174 |
| Accrued interests and commissions | 15,163,200 | 13,063,243 |
| Palestine national keys accounts | 14,280,249 | - |
| Accounts receivable and temporary advance payments, net* | 10,980,869 | 10,626,717 |
| Advance payments | 10,966,300 | 8,997,925 |
| Stationery and printings material and equipment in stores | 4,683,762 | 2,385,007 |
| Assets obtained by the Bank by calling on collateral** | 1,867,828 | 2,389,249 |
| Unreceived cash dividends | 239,822 | - |
| Positive financial derivatives | - | 7,531,513 |
| Other current assets | 2,745,650 | 2,263,795 |
| | 80,806,646 | 50,254,623 |

* Accounts receivable and temporary advance payments are shown in net. During 2023, provision was recorded in an amount of U.S. $ 298,461. During 2022, the Bank recovered a provision of an amount of U.S. $ 300,000.

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 3,066,780 | 1,457,400 |
| Additions during the year | 453,590 | 1,609,380 |
| | 3,520,370 | 3,066,780 |
| Less: impairment losses | (1,652,542) | (677,531) |
| Balance, end of the year | 1,867,828 | 2,389,249 |

17. Palestine Monetary Authority's deposits

This item comprises the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Current accounts | 20,377,357 | 3,317,152 |
| Term deposits maturing within 3 months or less | 80,432,601 | 70,881,775 |
| Swap deposits maturing within 3 months or less | 27,733,097 | 15,593,985 |
| Deposits maturing in more than 3 months | 74,879,361 | 89,311,038 |
| Motivational deposits maturing in more than 3 months* | - | 20,000,000 |
| | 203,422,416 | 199,103,950 |

* This item represents the value of motivational deposits from PMA to the Arab Islamic Bank (a subsidiary) 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 matured on September 27, 2023, 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 or less | Swap deposits maturing within 3 months or less | Term deposits maturing in more than 3 months | Total |
|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| 2023 | | | | | |
| Local | 43,769,638 | 50,771,773 | 72,000,000 | - | 166,541,411 |
| Foreign | 31,997,358 | - | 6,000,000 | - | 37,997,358 |
| | 75,766,996 | 50,771,773 | 78,000,000 | - | 204,538,769 |
| 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 |

## 19. Customers' deposits

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Customers' deposits | | |
| Current and on-demand deposits | 2,411,697,567 | 1,985,682,703 |
| Saving deposits | 1,494,004,590 | 1,394,367,423 |
| Time deposits | 664,893,209 | 664,789,756 |
| Debit balances – temporarily credit | 32,256,255 | 18,658,495 |
| | 4,602,851,621 | 4,063,498,377 |
| Unrestricted investment accounts | | |
| Saving deposits | 593,567,146 | 601,739,408 |
| Time deposits | 282,141,298 | 301,375,570 |
| | 875,708,444 | 903,114,978 |
| | 5,478,560,065 | 4,966,613,355 |

- Public sector deposits amounted to U.S. $ 219,245,012 and U.S. $ 228,679,521 representing 4.00% and 4.60% of total deposits as at December 31, 2023 and 2022, respectively.
- Non-bearing interest and profit deposits amounted to U.S. $ 3,947,229,822 and U.S. $ 3,398,708,621 representing 72.05% and 62.04% of total deposits as at December 31, 2023 and 2022, respectively.
- Dormant deposits amounted to U.S. $ 121,207,546 and U.S. $ 121,126,284 representing 2.21% and 2.44% of total deposits as at December 31, 2023 and 2022, respectively.
- Restricted deposits amounted to U.S. $ 156,588,174 and U.S. $ 82,085,901 representing 2.86% and 1.65% of total deposits as at December 31, 2023 and 2022, respectively.

## 20. Cash margins

This item represents cash margins against:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Direct credit facilities and Islamic financing | 248,626,732 | 223,989,287 |
| Indirect credit facilities and Islamic financing | 38,888,411 | 34,968,125 |
| Others | 41,652,086 | 41,153,075 |
| | 329,167,229 | 300,110,487 |

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 the year, the Bank signed a subordinated loan agreement with the Arab Fund for Economic and Social Development for an amount of U.S. $ 30 million. This loan is subject to an annual interest rate of 6%, payable quarterly. The loan is to be repaid in a single installment after 6 years from the date of loan withdrawal. Subsequent to the consolidated financial statements date, the loan amount has not been transferred as of the consolidated financial statements date.

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.

On May 30, 2017, the Bank signed additional subordinated loan agreement with International Finance Corporation (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.

These loans are subject to an effective annual interest rate ranging from 6.960% to 8.088%, the interest will be paid on semiannual basis and started from December 15, 2016.

During the year, the Bank paid an amount of U.S. $ 15 million of the value of this subordinated loan, bringing the outstanding balance to U.S. $ 45 million and U.S. $ 60 million as at December 31, 2023 and 2022, respectively.

## 22. Loans and borrowings

Details of this item are as follows:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| French Agency for Development * | 30,347,188 | 31,307,124 |
| Arab Fund for Economic and Social Development ** | 26,000,000 | 30,000,000 |
| European Bank for Reconstruction and Development (EBRD)*** | 10,555,556 | 7,777,778 |
| European Investment Bank **** | 7,142,857 | 8,571,429 |
| | 74,045,601 | 77,656,331 |

* 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 an annual interest rate ranging from 1.52% to 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 6.22%.

The outstanding balance as at December 31, 2023 and 2022 amounted to U.S. $ 30,347,188 and U.S. $ 31,307,124, respectively.

** 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, the Bank paid an amount of U.S. $ 4 million. The outstanding balance as at December 31, 2023 and 2022 amounted to U.S. $ 26 million and U.S. $ 30 million, 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 year 2023. Furthermore, during the year 2023, the remaining amount of the loan, totaling U.S. $ 5 million, was transferred at an interest rate of 8.21% for the year 2023. The outstanding balance as at December 31, 2023 and 2022 amounted to U.S. $ 10,555,556 and U.S. $ 7,777,778, 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 an annual interest rate of 3.431% and 0.5% on the unutilized balance.

The outstanding balance as at December 31, 2023 and 2022 amounted to U.S. $ 7,142,857 and U.S. $ 8,571,429 respectively.

## 23. Istidama loans from Palestine Monetary Authority

This item represents PMA's deposits as per PMA instructions number (22/2020) and (8/2021) 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 and Islamic financing granted and the Bank earns a declining interest at a maximum rate of 3% from borrowers, this excludes borrowers within the microenterprise financing program.

Istidama loans amounted to U.S. $ 23,405,534 and U.S. $ 32,110,614 as at December 31, 2023 and December 31, 2022, respectively.

## 24. Lease liabilities

Movement on lease liabilities are as follows:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 30,105,511 | 31,900,160 |
| Additions during the year | 1,929,722 | 2,488,562 |
| Finance costs for the year | 734,199 | 781,680 |
| Disposals | (440,176) | (370,744) |
| Payments on lease contracts | (5,234,582) | (4,694,147) |
| Balance, end of the year | 27,094,674 | 30,105,511 |

The liabilities related to rent contracts are deducted using a discount rate of 3.01% and return of 3.4%. 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, 2023 and December 31, 2022 amounted to U.S. $ 803,538 and U.S. $ 766,549, respectively (note 39).

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, 2023 | | | | |
| End of service provision | 50,136,062 | 10,481,022 | (9,998,835) | 50,618,249 |
| Lawsuits provision | 2,219,435 | 254,176 | - | 2,473,611 |
| | 52,355,497 | 10,735,198 | (9,998,835) | 53,091,860 |
| 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 |

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, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 35,440,008 | 21,492,314 |
| Additions | 27,843,936 | 40,691,196 |
| Payments during the year | (39,820,380) | (27,278,003) |
| Currency variance and transfers | (1,503,340) | 534,501 |
| Balance, end of the year | 21,960,224 | 35,440,008 |

Tax expenses as disclosed in the consolidated Income Statement are as follows:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Provision for the year | 33,307,822 | 43,797,331 |
| Deferred tax assets additions * | (29,084,742) | - |
| Deferred tax liabilities additions * | 2,686,546 | - |
| Excess provision from prior years | (4,600,000) | (2,314,115) |
| Motivational tax discounts and other settlements | (863,886) | (792,020) |
| Tax expenses presented in the consolidated income statement for the year | 1,445,740 | 40,691,196 |

* This item represents the balance of deferred tax assets amounting to U.S. $ 29,084,742 which is calculated on the provision for expected credit losses related to direct credit facilities for stages one and two, and the end of service provision. The balance of deferred tax liabilities amounting to U.S. $ 2,686,546 is calculated on the unrealized gains on the revaluation of investment properties. These deferred taxes are calculated due to temporary timing differences as of the date of the consolidated financial statements. During the year, the Bank's management revised its accounting estimates regarding the realization of deferred tax assets calculated on these items based on its experiences derived from recent settlements with tax authorities, in accordance with the laws, regulations, and instructions applicable in Palestine.

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Accounting profit | 17,936,254 | 107,337,833 |
| Profit not subject to value added tax | (6,528,597) | (11,681,112) |
| Non-deductible tax expenses | 114,567,190 | 64,599,186 |
| Gross profit subject to value added tax | 125,974,847 | 160,255,907 |
| Deduct: Value added tax | (17,734,469) | (22,104,263) |
| Value added tax on salaries | (8,470,437) | (8,135,580) |
| Adjustment for income tax calculation purpose | (11,337,478) | 1,332,296 |
| Taxable income | 88,432,463 | 131,348,360 |
| Income tax | 13,264,869 | 19,702,254 |
| Taxes payable for the year | 30,999,338 | 41,806,517 |
| Taxes provisions for the year | 33,307,822 | 43,797,331 |
| Effective tax rate | 186% | 41% |

During the year, the Bank reached a final settlement with the tax departments on the results of its operations until 2022.

The Arab Islamic Bank (a subsidiary) reached a final settlement with the tax departments on the results of its operations until 2021. The Bank submitted its tax return for the year 2022 on time, and the tax advisor continues to finalize the settlements. PalPay (a subsidiary) did not reach a final settlement with the tax departments on the results of its operations for the years 2021 and 2022. 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 2022.

As at December 31, 2023, 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. The effective tax rate used in calculating deferred taxes was 26.72%.

## 27. Other liabilities

Details of this item are as follows:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Accounts payable of subsidiaries' customers | 19,139,990 | 15,801,003 |
| Certified Bank checks | 13,551,110 | 18,746,323 |
| Accrued and unpaid interests | 8,102,832 | 6,520,993 |
| Outward Transfers | 7,265,352 | 16,455,349 |
| Temporary deposits | 6,922,960 | 6,997,658 |
| Accrued expenses | 6,851,692 | 5,308,715 |
| Cash dividends payable | 6,351,216 | 5,404,114 |
| Negative financial derivatives | 5,153,119 | - |
| Interests and commissions paid in advance | 4,707,555 | 3,472,296 |
| Provision for employee rewards | 4,372,872 | 3,550,000 |
| Accrued taxes | 3,622,691 | 2,549,200 |
| Cash margins for donors | 3,518,623 | 2,754,891 |
| Provision for expected credit losses on indirect credit facilities (note 51) | 3,377,610 | 552,520 |
| Return on unrestricted investment accounts | 2,651,704 | 2,162,771 |
| Board of Directors bonuses | 626,980 | 1,262,000 |
| Others | 6,511,142 | 3,336,639 |
| | 102,727,448 | 94,874,472 |

The other liabilities include amounts of U.S. $ 30,215,646 and U.S. $ 22,557,018 as at December 31, 2023, and 2022, respectively, subject to the calculation of mandatory cash reserves with the Palestine Monetary Authority.

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 extraordinary 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. Perpetual bond

During 2022, the Bank signed an agreement with the Japan International Cooperation Agency (JICA) to invest U.S. $ 30 million in a perpetual bond within the additional first tier of the Bank's regulatory capital, after obtaining the approval of the Palestinian Monetary Authority and the Bank's General Assembly, in order to enhance the financial solvency of the Bank's capital and increase its ability to finance small and medium enterprises. The necessary procedures and agreement were completed and the value of the perpetual bond was transferred to the Bank during the year. The bond is entitled to an annual interest rate of 7.5% plus LIBOR for 6 months. Interest on the bond during the year amounted to U.S. $ 3,711,667 and the accrued interest amounted to U.S. $ 181,890 as at December 31, 2023. During the year, the Bank decided to settle the accrued interest as per the agreement terms.

A perpetual bond is an unsecured sub-bond with vouchers that are paid at the end of every six months. The Bank has the right to decide whether to pay or not to pay interest, and the choice not to pay interest is not a default event. In the event that the Bank chooses not to pay, the Bank shall not be entitled to declare or pay any dividends.

30. 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.

<u>Voluntarily reserve</u>

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 2022, the Bank utilized a portion of its reserve balance amounting to U.S. $ 1,937,203 by distributing shares to the Bank's shareholders, each according to their respective ownership percentage. During the year, the Palestinian Monetary Authority issued Circular No. (317/2022) regarding the amendment of Instructions No. (2/2018) concerning the calculation mechanism of the general banking risk reserve. This circular did not come into effect until the date of the consolidated financial statements.

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.

## 31. Cash and Stock Dividends

The Bank's general assembly, during its ordinary meeting held on April 5, 2023, approved dividends distribution at 13% of the nominal value of the share in a total of U.S $ 29,114,615 from its results of operations for the year 2022, out of which 3% of the nominal value of the share as stock dividend distribution , with a total amount of U.S. $ 6,718,757, and cash dividends of 10% of the nominal value of the share, with a total amount of U.S. $ 22,395,858.

The Bank's general assembly, during its ordinary meeting held on April 19, 2022, approved dividends distribution of U.S. $ 26,094,067 from its results of operations for the year 2021, out of which U.S. $ 6,525,050 as stock dividends and U.S. $ 19,569,017 as cash dividends based on pro-rata ownership of the Bank's shareholders in the Bank's share capital. During 2022, the Bank obtained PMA's approval to capitalize part of the general banking risks reserve amounted U.S. $ 1,937,201 and utilize this amount as part of stock distributions (note 30).

Cash and stock dividends from a subsidiary

The general assembly of Arab Islamic Bank (a subsidiary), during its ordinary meeting held on March 28, 2023, approved a stock dividend distribution to shareholders at 5.09% of the nominal value of the share, with a total amount of U.S. $ 4,900,000, and cash dividends of 4.15% 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 2022. 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), during 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 PalPay, during its ordinary meeting held on October 5, 2023, approved a cash dividend distribution with a total amount of U.S. $ 650,000 from Palpay's operating results for the year 2022. The share of non-controlling parties in the distributed profits amounted to a total of U.S. $ 97,500.

## 32. Interest income

This item comprises interest revenues earned on the following accounts:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Loans | 145,686,231 | 129,518,204 |
| Overdraft accounts | 30,834,575 | 27,727,039 |
| Balances, deposits and investments at Banks and financial institutions | 28,151,406 | 8,580,211 |
| Overdrawn accounts | 12,395,302 | 11,935,247 |
| Financial assets at amortized cost | 8,420,134 | 9,423,230 |
| Credit cards | 2,906,562 | 3,127,241 |
| | 228,394,210 | 190,311,172 |

## 33. Interest expense

This item comprises interest incurred on the following accounts:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Interest on customers' deposits | | |
| Time deposits | 18,319,158 | 16,573,139 |
| Saving accounts | 2,824,685 | 2,488,939 |
| Current and on demand accounts | 125,472 | 153,137 |
| | 21,269,315 | 19,215,215 |
| Interest on Palestine Monetary Authority's deposits | 4,395,202 | 2,088,458 |
| Interest on subordinated loan | 4,291,926 | 5,438,531 |
| Interest on Banks' and financial institutions' deposits | 3,834,716 | 812,254 |
| Interest on loans and borrowings | 3,041,165 | 1,962,434 |
| Interest on lease liabilities | 734,199 | 781,680 |
| | 37,566,523 | 30,298,572 |

## 34. Net financing and investment income

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Revenues from financing returns | 64,450,982 | 60,940,570 |
| Investment returns | 5,259,533 | 3,069,722 |
| | 69,710,515 | 64,010,292 |
| Less: return of unrestricted investment accounts | (8,633,190) | (7,854,958) |
| | 61,077,325 | 56,155,334 |

## 35. Net commissions income

This item comprises commissions against the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Commissions income: | | |
| Checks | 9,416,075 | 6,942,458 |
| Accounts management commission | 9,127,932 | 8,437,416 |
| Bank transfers | 6,298,512 | 7,931,296 |
| Direct credit facilities | 3,790,183 | 4,867,991 |
| Indirect credit facilities | 3,752,927 | 4,098,053 |
| Salaries commission | 3,103,850 | 3,699,167 |
| Credit cards commission revenue, net | 2,689,698 | 2,616,027 |
| Other Banking services | 6,001,490 | 6,332,141 |
| | 44,180,667 | 44,924,549 |
| Less: commissions expense | (6,081,164) | (4,809,651) |
| | 38,099,503 | 40,114,898 |

## 36. Net gains from financial assets portfolio

This item comprises the following:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash dividends from financial assets through other comprehensive income | 2,829,429 | 2,474,650 |
| Cash dividends from financial assets through profit or loss | 284,282 | 488,773 |
| Realized (losses) gains from sale of financial assets at fair value through profit or loss | (2,650) | 14,088 |
| Unrealized losses from revaluation of financial assets at fair value through profit or loss | (18,020) | (1,048,479) |
| Investment management fees | (465,081) | (544,438) |
| | 2,627,960 | 1,384,594 |

## 37. Other revenues, net

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Recovery of less than six years suspended interest and profit | 3,165,609 | 3,754,246 |
| Recovery of more than six years suspended interest and profit | 890,500 | 785,073 |
| Safe boxes rental | 279,827 | 263,804 |
| Gains from selling and disposing of property, plant and equipment, and right of use assets | 158,897 | 260,397 |
| Sundry | 3,608,178 | 4,167,086 |
| | 8,103,011 | 9,230,606 |

## 38. Personnel expenses

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Salaries and related benefits | 54,743,647 | 52,461,624 |
| Provision for employees' end of service | 10,481,022 | 10,641,157 |
| Value added tax on salaries | 8,470,437 | 8,135,580 |
| Bonuses and rewards | 5,305,647 | 4,908,149 |
| Medical and insurance expenses | 4,102,575 | 3,865,868 |
| Bank's contribution to saving fund * | 2,316,187 | 2,194,958 |
| Training expenses | 1,032,166 | 1,408,513 |
| Transportation | 1,026,986 | 1,033,498 |
| Clothing allowances | 958,243 | 1,004,826 |
| | 88,436,910 | 85,654,173 |

* 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.

## 39. Other operating expenses

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Palestine Deposit Insurance Corporation fees* | 9,951,271 | 9,642,700 |
| Telephone, postage and fax | 6,434,672 | 6,174,821 |
| Maintenance and repairs | 6,860,305 | 5,728,175 |
| Cash shipping expense | 5,898,712 | 5,120,434 |
| Professional fees | 5,871,673 | 5,031,063 |
| Subscriptions fees | 4,767,821 | 2,397,985 |
| Advertising and promotions | 4,761,453 | 4,235,906 |
| Social responsibility ** | 4,346,288 | 2,091,615 |
| Utilities | 2,197,593 | 2,329,208 |
| Board of Directors bonuses and allowances | 2,111,609 | 2,335,604 |
| Stationery and printing | 1,935,416 | 2,052,872 |
| Insurance fees | 1,813,311 | 1,718,109 |
| Guarding and cleaning fees | 1,783,175 | 1,580,588 |
| License fees | 1,359,472 | 879,413 |
| Travel and seminars fees | 1,228,779 | 847,104 |
| Fuel | 1,019,976 | 1,182,480 |
| Rent (note 24) | 803,538 | 766,549 |
| Hospitality and activities fees | 483,849 | 485,956 |
| Vehicles' expense | 285,167 | 274,795 |
| Sundry | 3,753,236 | 3,325,749 |
| | 67,667,316 | 58,201,126 |

* Banks must accrue an annual subscription fee for Palestine Deposit Insurance Corporation (the Corporation) as specified under the law No. (7) for the year 2013. 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 circular also stipulates the implementation of the risk-based fees system in early 2024.

** 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 26.36% and 3.14% of profit for the years 2023 and 2022, respectively.

## 40. Provision for expected credit losses on investments, indirect credit facilities and Islamic financing, and other assets impairments, net

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Realized cash losses (note 5) | 31,302,734 | - |
| Balances with Palestine Monetary Authority (note 5) | 136,523 | 1,060,855 |
| Balances, deposits and investments at Banks and financial institutions (note 6) | (505,299) | 371,323 |
| Financial assets at amortized cost (note 10) | 37,708 | 2,147,271 |
| Impairment losses of property, plant, and equipment (note 13) | 930,600 | - |
| Impairment losses on assets obtained by the Bank by calling on collateral (note 16) | 975,011 | - |
| Indirect credit facilities (note 51) | 2,825,090 | 237,434 |
| Total | 35,702,367 | 3,816,883 |

## 41. Palestine Monetary Authority's fines

This item represents fines imposed by PMA on the Bank and Arab Islamic Bank (a subsidiary) amounted to U.S. $ 60,000 and U.S. $ 25,000 for the year ended December 31, 2023 and 2022, respectively, related to non-compliance with some PMA instructions and the related laws and regulations.

## 42. 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:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash and balances with Palestine Monetary Authority | 1,789,619,024 | 1,805,386,214 |
| Add: | | |
| Balances, deposits and investments at Banks and financial institutions | 1,008,328,015 | 595,923,080 |
| | 2,797,947,039 | 2,401,309,294 |
| Less: | | |
| Deposits at Banks maturing after 3 months | (55,503,527) | (32,040,903) |
| Investments at Islamic Banks maturing after 3 months | (6,000,000) | (6,000,000) |
| Restricted balances of withdrawal | (74,907,482) | (75,823,828) |
| Palestine Monetary Authority's deposits and balances maturing within 3 months or less | (128,543,055) | (89,792,912) |
| Banks and financial institutions' deposits maturing within 3 months | (204,538,769) | (90,735,925) |
| Statutory cash reserve | (519,244,716) | (490,496,023) |
| | 1,809,209,490 | 1,616,419,703 |

## 43. Basic and diluted earnings per share

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Profit for the year attributable to equity holders of the Bank | 13,105,203 | 60,912,868 |
| Deduct: Interest on perpetual bond | (3,711,667) | - |
| Net profit after deducting interest on perpetual bond | 9,393,536 | 60,912,868 |
| | Shares | Shares |
| Weighted average of subscribed shares during the year | 230,677,334 | 230,677,334 |
| | U.S. $ | U.S. $ |
| Basic and diluted earnings per share attributable to equity holders of the Bank | 0.04 | 0.26 |

## 44. 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:

| 2023 | 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 | 4,499,156 | 4,907,022 | 66,740,284 | 38,969,172 | 115,115,634 |
| Including: | | | | | |
| Non-performing credit facilities | - | - | - | 297,845 | 297,845 |
| Deposits | 372,154 | 321,143 | 42,678,206 | 25,081,341 | 68,452,844 |
| Financial assets at amortized cost | - | - | 8,000,000 | - | 8,000,000 |
| Financial assets at fair value through other comprehensive income | - | - | 4,457,139 | - | 4,457,139 |
| Prepaid expenses | - | 2,142,248 | - | - | 2,142,248 |
| Board of Directors renumerations and expenses | - | - | 627,000 | - | 627,000 |
| Commitments and contingencies | | | | | |
| Letters of guarantees | - | - | 6,154,365 | 210,534 | 6,364,899 |
| Letters of credit | - | - | - | 2,759,250 | 2,759,250 |
| Unutilized limits | 213,426 | 1,151 | 388,435 | 8,568,123 | 9,171,135 |
| Consolidated Income statement items: | | | | | |
| Interest and commissions revenue | 252,126 | 339,048 | 3,405,437 | 2,258,902 | 6,255,513 |
| Interest and commissions paid | - | - | 836,614 | 250,434 | 1,087,048 |

| 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 |
| Prepaid expenses | - | 666,525 | - | - | 666,525 |
| 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 revenue | 259,621 | 338,823 | 2,824,285 | 1,492,429 | 4,915,158 |
| Interest and commissions paid | - | - | 317,790 | 69,203 | 386,993 |

* 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, 2023 and 2022 represent 3.00% and 2.89% 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, 2023 and 2022 represent 18.46% and 17.34% respectively, from the Bank's regulatory capital.
- Interest on U.S. $ direct credit facilities ranges between 2.50% 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%.
- The profit rate on loans granted in U.S. $ to related parties during 2023 ranges between 1.72% to 6%

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

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Executive management's salaries and related benefits (short term benefits) | 5,376,210 | 4,400,658 |
| Executive management's end of service provision (long term benefits) | 1,121,846 | 365,080 |
| Board of Directors' bonuses * | 835,122 | 1,262,000 |
| Board of Directors' remunerations and expenses | 1,276,487 | 1,073,604 |

* This item includes the board of directors' bonuses of Bank of Palestine in the amount of U.S. $ 406,980 and U.S. $ 990,000 for the years 2023 and 2022, respectively.

Following are the details of Board of Director remuneration for the years 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Hashim Hani Shawa | 39,385 | 100,112 |
| Abdullah Al-Ghanim | 39,385 | 100,112 |
| Tafeeda Jarbawi | 39,385 | 100,112 |
| Emad Erik Shehadeh | 39,385 | 100,112 |
| Lana Abu Hijleh | 39,385 | 100,112 |
| Maha Awad | 39,385 | 100,112 |
| Tawfeeq Habash | 39,385 | 77,865 |
| Adel Dajani | 39,385 | 77,865 |
| Tariq Aqqad | 21,882 | 66,742 |
| Lama Kan'an | 39,385 | 66,742 |
| Linda Tarzi | 30,633 | 55,620 |
| Maher Jawad Farah | - | 22,247 |
| Hani Hasan Nigim | - | 22,247 |
| | 406,980 | 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 2.47% and 1.89% of profit for the years 2023 and 2022, respectively.

## 45. 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, 2023:

| | 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 | 1,787,611,742 | 1,787,611,742 | - | - | 1,787,611,742 |
| Balances, deposits and investments at Banks and financial institutions | 1,005,207,710 | 1,005,207,710 | - | - | 1,005,207,710 |
| Financial assets at fair value through profit or loss: | | | | | |
| Quoted stocks | 1,569,073 | 1,569,073 | - | - | 1,569,073 |
| Unquoted stocks | 6,224,228 | - | 2,227,109 | 3,997,119 | 6,224,228 |
| Direct credit facilities and Islamic financing | | | | | |
| Retails | 1,201,391,132 | - | - | 1,201,391,132 | 1,201,391,132 |
| Corporate, local regulators, institutions and small projects | 1,869,801,048 | - | - | 1,869,801,048 | 1,869,801,048 |
| Palestine National Authority | 767,816,047 | - | - | 767,816,047 | 767,816,047 |
| Financial assets at fair value through other comprehensive income: | | | | | |
| Quoted stocks | 49,207,330 | 49,207,330 | - | - | 49,207,330 |
| Unquoted stocks | 11,691,136 | - | - | 11,691,136 | 11,691,136 |
| Financial assets at amortized cost: | | | | | |
| Treasury bills | 82,613,206 | 50,627,703 | - | 29,863,952 | 80,491,655 |
| Quoted bonds | 23,710,518 | 23,559,420 | - | - | 23,559,420 |
| Unquoted bonds | 12,239,392 | - | - | 12,239,392 | 12,239,392 |
| Islamic sukuk | 40,791,117 | 39,796,369 | - | - | 39,796,369 |
| Other financial assets | 63,288,756 | - | - | 63,288,756 | 63,288,756 |
| Total assets | 6,923,162,435 | 2,957,579,347 | 2,227,109 | 3,960,088,582 | 6,919,895,038 |
| Financial liabilities | | | | | |
| Palestine Monetary Authority deposits | 203,422,416 | 203,422,416 | - | - | 203,422,416 |
| Banks and financial institutions' deposits | 204,538,769 | 204,538,769 | - | - | 204,538,769 |
| Customers' deposits | 5,478,560,065 | 5,478,560,065 | - | - | 5,478,560,065 |
| Cash margins | 329,167,229 | 329,167,229 | - | - | 329,167,229 |
| Subordinated loan | 45,000,000 | - | - | 45,000,000 | 45,000,000 |
| Loans and borrowings | 74,045,601 | - | - | 74,045,601 | 74,045,601 |
| Istidama loans from Palestine Monetary Authority | 23,405,534 | - | - | 23,405,534 | 23,405,534 |
| Leased Liabilities | 27,094,674 | - | - | 27,094,674 | 27,094,674 |
| Other financial liabilities | 94,642,283 | - | 5,153,119 | 89,489,164 | 94,642,283 |
| Total liabilities | 6,479,876,571 | 6,215,688,479 | 5,153,119 | 259,034,973 | 6,479,876,571 |

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 | 1,502,782 | 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 | | | | | |
| Retails | 1,111,337,483 | - | - | 1,111,337,483 | 1,111,337,483 |
| Corporate, local regulators, institutions and small projects | 1,748,510,872 | - | - | 1,748,510,872 | 1,748,510,872 |
| 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 | 50,905,607 | - | 100,839,173 | 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 | 6,314,351,228 | 2,572,152,043 | 10,373,755 | 3,731,549,820 | 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 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 unquoted financial assets at amortized costs, loans and borrowings, subordinated loans, Istidama loans, lease liabilities was estimated by using expected cash flow by using the interest rates in financial markets.

Fair value of financial assets at fair value through profit or loss, quoted financial assets at fair value through other comprehensive income, quoted financial assets at amortized cost and financial derivatives 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.

The fair value of the items in the investment portfolio was determined by the Bank's share in the net asset value of the portfolio, which includes tradable financial instruments.

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, 2023.

## 46. 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, 2023:

| | | | 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- (note 7): | | | | | |
| Quoted | December 31, 2023 | 1,569,073 | 1,569,073 | - | - |
| Unquoted | December 31, 2023 | 6,224,228 | - | 2,227,109 | 3,997,119 |
| Financial assets at fair value through other comprehensive income (note 9): | | | | | |
| Quoted | December 31, 2023 | 49,207,330 | 49,207,330 | - | - |
| Unquoted | December 31, 2023 | 11,691,136 | - | - | 11,691,136 |
| Investment properties (note 12) | December 31, 2023 | 24,776,440 | - | - | 24,776,440 |
| Financial assets accounted for in its fair value: | | | | | |
| Financial assets at amortized cost (note 10): | | | | | |
| Treasury bills | December 31, 2023 | 80,491,655 | 50,627,703 | - | 29,863,952 |
| Quoted bonds | December 31, 2023 | 23,559,420 | 23,559,420 | - | - |
| Unquoted bonds | December 31, 2023 | 12,239,392 | - | - | 12,239,392 |
| Islamic Sukuk | December 31, 2023 | 39,796,369 | 39,796,369 | - | - |
| Liabilities measured at fair value on a recurring basis | | | | | |
| Financial derivatives at fair value through profit or loss (note 16) | December 31, 2023 | 5,153,119 | - | 5,153,119 | - |

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

| | Date of evaluation | Total | Measurement of fair value by: 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- (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 (note 10): | | | | | |
| Treasury bills | December 31, 2022 | 151,744,780 | 50,905,607 | - | 100,839,173 |
| 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 | - | - |
| Assets measured at fair value on a recurring basis | | | | | |
| Financial derivatives at fair value through profit or loss (note 27) | December 31, 2022 | 7,531,513 | - | 7,531,513 | - |

The Bank has not made any transfers between the above levels during 2023 and 2022.

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

| | Increase/ decrease in fair value | Effect on fair value |
|---|---|---|
| | % | U.S. $ |
| 2023 | | |
| Fair value per square meter | 5+ | 1,238,822 |
| Fair value per square meter | 5- | (1,238,822) |
| 2022 | | |
| Fair value per square meter | 5+ | 1,146,537 |
| Fair value per square meter | 5- | (1,146,537) |

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

| December 31 2023 | Balance, beginning of the year U.S. $ | Additions U.S. $ | Maturity/sale /transfer U.S. $ | Fair value reserve U.S. $ | Unrealized losses from revaluation of financial assets recognized in consolidated income statement U.S. $ | Balance, end of the year U.S. $ |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss (note 7): | | | | | | |
| Unquoted | 4,823,261 | 411,000 | (1,246,295) | - | 9,153 | 3,997,119 |
| Financial assets at fair value through other comprehensive income items (note 9): | | | | | | |
| Unquoted | 12,563,716 | 35,267 | (100,000) | (807,847) | - | 11,691,136 |
| Assets measured at Fair Value: | | | | | | |
| Investment properties (note 12) | 22,930,742 | 1,810,165 | (146,000) | - | 181,533 | 24,776,440 |
| | 40,317,719 | 2,256,432 | (1,492,295) | (807,847) | 190,686 | 40,464,695 |

| December 31 2022 | Balance, beginning of the year U.S. $ | Additions U.S. $ | Maturity/sale U.S. $ | Fair value reserve U.S. $ | Unrealized losses from revaluation of financial assets recognized in consolidated income statement U.S. $ | Balance, end of the year U.S. $ |
|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss (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 |

– Sensitivity of unobservable data (level three):

Certified external valuators are assigned to value the material assets such as investment properties. 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.

## 47. 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:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | 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 | 6,031,372,985 | 6,858,220,336 | 598,351,708 | 5,637,538,295 | 6,185,301,530 | 534,070,471 |
| Israel | 33,350,817 | 305,889 | 1,283,778 | 54,636,368 | 1,875,430 | 22,673 |
| Jordan | 294,662,392 | 2,054,243 | 3,357 | 320,987,799 | 10,402,405 | 59,272 |
| Europe | 575,088,881 | 74,094,132 | 11,005,637 | 245,868,312 | 77,737,176 | 14,724,649 |
| USA | 23,453,331 | 45,919,975 | 3,636,546 | 45,984,611 | 60,000,000 | 4,003,718 |
| Others | 168,132,342 | 145,466,173 | 21,774,422 | 182,945,472 | 152,644,316 | 21,779,009 |
| Total | 7,126,060,748 | 7,126,060,748 | 636,055,448 | 6,487,960,857 | 6,487,960,857 | 574,659,792 |
| By sector | | | | | | |
| Retail | 1,201,391,132 | 3,851,492,987 | 230,101,578 | 1,207,029,427 | 2,919,024,393 | 47,548,527 |
| Corporate, institutions and public sector | 2,637,617,095 | 1,956,234,307 | 405,953,870 | 2,302,134,391 | 2,375,279,448 | 507,169,673 |
| Treasury | 3,032,723,573 | 550,306,151 | - | 2,787,468,190 | 537,184,622 | 19,941,592 |
| Others | 254,328,948 | 768,027,303 | - | 191,328,849 | 656,472,394 | - |
| Total | 7,126,060,748 | 7,126,060,748 | 636,055,448 | 6,487,960,857 | 6,487,960,857 | 574,659,792 |

## 48. 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):

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Consolidated statement of financial position items | | |
| Balances with Palestine Monetary Authority | 594,047,522 | 519,310,636 |
| Balances, deposits and investments at Banks and financial institutions | 1,005,207,710 | 592,297,476 |
| Direct credit facilities and Islamic financing: | | |
| Retail | 1,201,391,132 | 1,111,337,483 |
| Corporate, institutions and local regulators | 1,869,801,048 | 1,748,510,872 |
| Palestine National Authority | 767,816,047 | 712,206,510 |
| Financial assets at amortized cost | 159,354,233 | 241,306,472 |
| Other financial assets | 63,288,756 | 36,482,442 |
| | 5,660,906,448 | 4,961,451,891 |
| Items not included in the consolidated statement of financial position | | |
| Letters of guarantees | 226,608,337 | 212,390,048 |
| Letters of credit | 42,431,138 | 38,797,292 |
| Acceptances | 7,810,133 | 7,784,207 |
| Unutilized credit facilities limits | 359,050,289 | 315,491,295 |
| Other | 155,551 | 196,950 |
| | 636,055,448 | 574,659,792 |

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:

| 2023 | 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 | 596,054,804 | - | - | 2,007,282 | - | - | 0.34% | - | - |
| Balances, deposits and investments at Banks and financial institutions | 968,927,354 | 36,710,935 | 2,689,726 | 411,368 | 19,210 | 2,689,727 | 0.04% | 0.05% | 100.00% |
| Direct credit facilities and Islamic financing: | | | | | | | | | |
| Retails | 356,721,372 | 867,124,287 | 62,004,086 | 959,111 | 45,358,657 | 31,962,974 | 0.27% | 5.23% | 51.55% |
| SMEs | 413,538,164 | 223,917,839 | 73,649,667 | 1,259,899 | 22,730,074 | 36,415,495 | 0.30% | 10.15% | 49.44% |
| Corporate and local regulators | 817,590,528 | 425,603,614 | 95,972,908 | 1,857,280 | 44,602,176 | 61,892,823 | 0.23% | 10.48% | 64.49% |
| Palestine National Authority | 785,491,826 | - | - | 17,675,779 | - | - | 2.25% | - | - |
| Financial assets at amortized cost | 135,072,095 | 26,206,437 | 2,524,147 | 517,063 | 1,407,236 | 2,524,147 | 0.38% | 5.37% | 100.00% |
| Other financial assets | 63,288,756 | - | - | - | - | - | - | - | - |
| Total | 4,136,684,899 | 1,579,563,112 | 236,840,534 | 24,687,782 | 114,117,353 | 135,485,166 | 0.60% | 7.22% | 57.21% |
| Credit exposure related to off-balance sheet items | 469,746,872 | 166,308,576 | - | 172,483 | 3,205,127 | - | 0.04% | 1.93% | - |

| 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 | 443,487,668 | 688,391,296 | 41,432,912 | 586,473 | 34,197,607 | 20,472,102 | 0.13% | 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 | 643,476,457 | 500,524,466 | 92,227,647 | 3,181,055 | 26,321,254 | 53,026,269 | 0.49% | 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 | - | - | - | - | - | - | - | - |
| 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% | - |

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 |
| 2023 | 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 | 147,535,760 | 4,450,799 | 142,012,538 | 18,744,180 | 179,361,744 | 34,997,843 | - | - | 468,910,042 | 58,192,822 |
| More than 30 DPD | 719,588,527 | 40,907,858 | 81,905,301 | 3,985,894 | 246,241,870 | 9,604,333 | - | - | 1,047,735,698 | 54,498,085 |
| Total | 867,124,287 | 45,358,657 | 223,917,839 | 22,730,074 | 425,603,614 | 44,602,176 | - | - | 1,516,645,740 | 112,690,907 |

| | 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 |

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

| 2023 | Total value of exposure | Fair value of collaterals: Cash margins | Precious metals and others | Quoted stocks and letter of guarantees | Vehicles, equipment and others | 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 | 596,054,804 | - | - | - | - | - | - | 596,054,804 | 2,007,282 |
| Balances, deposits and investments at Banks and financial institutions | 1,008,328,015 | - | - | - | - | - | - | 1,008,328,015 | 3,120,305 |
| Direct credit facilities and Islamic financing: | | | | | | | | | |
| Retails | 1,285,849,745 | 32,225,417 | 250,009 | 8,095,180 | 54,727,186 | 254,603,823 | 349,901,615 | 935,948,130 | 78,280,742 |
| SMEs | 711,105,670 | 65,824,264 | 428,970 | 72,834,921 | 27,868,831 | 202,963,537 | 369,920,523 | 341,185,147 | 60,405,468 |
| Corporate and local regulators | 1,339,167,050 | 130,761,587 | - | 80,976,817 | 71,132,240 | 379,580,108 | 662,450,752 | 676,716,298 | 108,352,279 |
| Palestine National Authority | 785,491,826 | 2,773 | - | - | - | - | 2,773 | 785,489,053 | 17,675,779 |
| Financial assets at amortized cost | 163,802,679 | - | - | - | - | - | - | 163,802,679 | 4,448,446 |
| Other financial assets | 63,288,756 | - | - | - | - | - | - | 63,288,756 | - |
| Total | 5,953,088,545 | 228,814,041 | 678,979 | 161,906,918 | 153,728,257 | 837,147,468 | 1,382,275,663 | 4,570,812,882 | 274,290,301 |
| Credit exposure related to off-balance sheet items | 636,055,448 | 60,182,847 | 4,705 | 2,401,604 | 323,144 | 12,235,671 | 75,147,971 | 560,907,477 | 3,377,610 |

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

| 2023 | Total exposure | Fair value of collaterals: Cash margins | Precious metals | Real estate | Quoted stocks | Vehicles, equipment and others | 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 | 62,004,086 | 1,380,096 | 77,957 | 7,760,652 | 510,017 | 1,621,484 | 11,350,206 | 50,653,880 | 31,962,974 |
| Corporate and institutions | 169,622,575 | 3,820,298 | 42,113 | 39,090,458 | 11,097,493 | 5,007,505 | 59,057,867 | 110,564,708 | 98,308,318 |
| Total | 231,626,661 | 5,200,394 | 120,070 | 46,851,110 | 11,607,510 | 6,628,989 | 70,408,073 | 161,218,588 | 130,271,292 |

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, equipment and others | 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 | 1,173,311,876 | 29,198,127 | 317,383 | 3,797,390 | 107,111,975 | 219,654,138 | 360,079,013 | 813,232,863 | 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 | 1,236,228,570 | 122,077,399 | - | 67,430,551 | 46,278,292 | 394,699,471 | 630,485,713 | 605,742,857 | 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, equipment and others | 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 | 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 |

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

| December 31, 2023 | 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 | 594,047,522 | - | - | - | - | - | 594,047,522 |
| Balances, deposits and investments at Banks and financial institutions | 127,109,625 | 219,462,007 | 27,004,249 | 560,352,891 | 5,484,615 | 65,794,323 | 1,005,207,710 |
| Direct credit facilities and Islamic financing | 3,802,831,763 | 31,593,440 | 29,302 | 2,328,363 | 1,102,678 | 1,122,681 | 3,839,008,227 |
| Financial assets at amortized cost | 12,239,392 | 67,891,723 | - | 9,950,301 | 12,940,164 | 56,332,653 | 159,354,233 |
| Other financial assets | 63,288,756 | - | - | - | - | - | 63,288,756 |
| Total as at December 31, 2023 | 4,599,517,058 | 318,947,170 | 27,033,551 | 572,631,555 | 19,527,457 | 123,249,657 | 5,660,906,448 |
| 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 |

Concentration of credit risk exposures according to IFRS (9) Stages as at December 31, 2023 and 2022 is as follows:

| | Stage (1) | Stage (2) | Stage (3) | 2023 |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Palestine | 3,089,996,991 | 1,428,520,848 | 80,999,219 | 4,599,517,058 |
| Arab countries | 293,018,961 | 25,928,209 | - | 318,947,170 |
| Israel | 27,033,551 | - | - | 27,033,551 |
| Europe | 572,631,555 | - | - | 572,631,555 |
| USA | 19,527,457 | - | - | 19,527,457 |
| Others | 109,788,602 | 10,996,702 | 2,464,353 | 123,249,657 |
| Total | 4,111,997,117 | 1,465,445,759 | 83,463,572 | 5,660,906,448 |

| | 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 |

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 |
|---|---|---|---|---|---|---|---|
| 2023 | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balances with Palestine Monetary Authority | 594,047,522 | - | - | - | - | - | 594,047,522 |
| Balances, deposits and investments at Banks and financial institutions | 1,005,207,710 | - | - | - | - | - | 1,005,207,710 |
| Direct credit facilities and Islamic financing | 50,674,768 | 274,954,370 | 628,824,563 | 778,918,890 | 767,816,047 | 1,337,819,589 | 3,839,008,227 |
| Financial assets at amortized cost | 54,213,483 | 1,500,819 | - | 2,277,345 | 82,613,206 | 18,749,380 | 159,354,233 |
| Other | 4,904,637 | - | - | - | - | 58,384,119 | 63,288,756 |
| December 31, 2023 | 1,709,048,120 | 276,455,189 | 628,824,563 | 781,196,235 | 850,429,253 | 1,414,953,088 | 5,660,906,448 |
| 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 |

Concentration of credit risk exposures according to IFRS (9) Stages as at December 31, 2023 and 2022 is as follows:

| | Stage (1) | Stage (2) | Stage (3) | 2023 |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Financial sector | 1,707,719,352 | 1,324,613 | 4,155 | 1,709,048,120 |
| Industrial | 173,035,911 | 99,059,664 | 4,359,614 | 276,455,189 |
| Commercial | 436,045,010 | 168,297,809 | 24,481,744 | 628,824,563 |
| Real estate | 316,042,702 | 451,148,701 | 14,004,832 | 781,196,235 |
| Palestine National Authority and other Governmental bonds | 832,594,294 | 17,834,959 | - | 850,429,253 |
| Others | 646,559,848 | 727,780,013 | 40,613,227 | 1,414,953,088 |
| Total | 4,111,997,117 | 1,465,445,759 | 83,463,572 | 5,660,906,448 |

| | 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 and other Governmental bonds | 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 |

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, 2023:

| 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 (%) |
|---|---|---|---|---|---|---|---|---|
| | | (%) | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
| GDP | Base case | 10 | (1.06) | (1.62) | (0.31) | 0.40 | 0.37 | 0.17 |
| | Best case | - | 0.22 | (0.35) | 0.97 | 1.67 | 1.64 | 1.45 |
| | Worst case | 90 | (2.90) | (2.90) | (1.58) | (0.88) | (0.91) | (1.11) |
| Unemployment rates | | | | | | | | |
| | Base case | 10 | (0.07) | (0.07) | 1.62 | 1.72 | 1.82 | 1.82 |
| | Best case | - | 0.34 | 0.34 | 2.04 | 2.14 | 2.24 | 2.24 |
| | Worst case | 90 | (0.48) | (0.48) | 1.21 | 1.31 | 1.41 | 1.41 |

During the year, the Bank calculated a 100% weighting for the worst scenario for customers affected by the war on Gaza Strip.

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 |

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:

| | 2023 | 2022 |
|---|---|---|
| | Financial assets at amortized cost | Financial assets at amortized cost |
| Credit rating | U.S. $ | U.S. $ |
| Private sector: | | |
| From A- to AAA | 26,514,056 | 42,159,362 |
| From B- to BBB+ | 38,981,594 | 38,117,934 |
| Unrated | 14,205,687 | 13,000,000 |
| Governments and public sector | 84,101,342 | 153,339,092 |
| Total | 163,802,679 | 246,616,388 |

## 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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | 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 | 1,269,172 | 10 | 835,856 |
| Jordanian Dinar | 10 | 251,452 | 10 | 195,681 |
| New Israeli Shekels | 10 | 961,645 | 10 | 806,862 |
| Other currencies | 10 | 84,199 | 10 | 17,790 |

# Interest rate re-pricing sensitivity gap

| December 31, 2023 | 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 | 27,600,000 | - | - | - | - | 1,760,011,742 | 1,787,611,742 |
| Balances, deposits and investments at Banks and financial institutions | 640,490,869 | 152,442,479 | 41,230,595 | 15,916,582 | 5,190,123 | 149,937,062 | 1,005,207,710 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 7,793,301 | 7,793,301 |
| Direct credit facilities and Islamic financing | 367,982,337 | 165,866,133 | 223,896,714 | 520,382,944 | 2,560,880,099 | - | 3,839,008,227 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | 60,898,466 | 60,898,466 |
| Financial assets at amortized cost | 8,831,543 | 24,764,336 | 20,284,586 | 14,855,765 | 90,618,003 | - | 159,354,233 |
| Investment in associates and a joint venture | - | - | - | - | - | 11,858,121 | 11,858,121 |
| Investment properties | - | - | - | - | - | 24,776,440 | 24,776,440 |
| Property, plant and equipment and right of use assets | - | - | - | - | - | 102,657,226 | 102,657,226 |
| Deferred tax assets | - | - | - | - | - | 29,084,742 | 29,084,742 |
| Projects in progress | - | - | - | - | - | 2,268,294 | 2,268,294 |
| Intangible assets | - | - | - | - | - | 14,735,600 | 14,735,600 |
| Other assets | - | - | - | - | - | 80,806,646 | 80,806,646 |
| Total assets | 1,044,904,749 | 343,072,948 | 285,411,895 | 551,155,291 | 2,656,688,225 | 2,244,827,640 | 7,126,060,748 |
| Liabilities | | | | | | | |
| Palestine Monetary Authority deposits | 80,431,470 | 12,150,568 | 30,506,406 | 44,372,955 | 15,583,660 | 20,377,357 | 203,422,416 |
| Banks and financial institutions' deposits | 110,784,104 | 6,342,562 | 2,987,336 | 6,092,526 | 2,565,245 | 75,766,996 | 204,538,769 |
| Customers' deposits | 402,728,248 | 300,760,996 | 295,745,740 | 429,088,823 | 103,006,436 | 3,947,229,822 | 5,478,560,065 |
| Cash margins | 69,038,827 | 19,936,313 | 47,924,299 | 66,247,656 | 126,020,134 | - | 329,167,229 |
| Subordinated loan | - | - | 7,500,000 | 7,500,000 | 30,000,000 | - | 45,000,000 |
| Loans and borrowings | - | 1,538,462 | 3,701,168 | 7,053,672 | 61,752,299 | - | 74,045,601 |
| Istidama loans | 29,205 | 28,748 | 275,610 | 1,474,050 | 21,597,921 | - | 23,405,534 |
| Deferred tax liability | - | - | - | - | - | 2,686,546 | 2,686,546 |
| Sundry provisions | - | - | - | - | - | 53,091,860 | 53,091,860 |
| Taxes provisions | - | - | - | - | - | 21,960,224 | 21,960,224 |
| Lease liabilities | - | - | - | - | - | 27,094,674 | 27,094,674 |
| Other liabilities | - | - | - | - | - | 102,727,448 | 102,727,448 |
| TOTAL LIABILITIES | 663,011,854 | 340,757,649 | 388,640,559 | 561,829,682 | 360,525,695 | 4,250,934,927 | 6,565,700,366 |
| Equity | | | | | | | |
| Paid-in share capital | - | - | - | - | - | 230,677,334 | 230,677,334 |
| Perpetual bond | - | - | - | - | - | 30,000,000 | 30,000,000 |
| Additional paid-in capital | - | - | - | - | - | 29,575,688 | 29,575,688 |
| Statutory reserve | - | - | - | - | - | 69,285,414 | 69,285,414 |
| 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 | - | - | - | - | - | (106,169) | (106,169) |
| Retained earnings | - | - | - | - | - | 86,452,694 | 86,452,694 |
| Total equity holders of the Bank | - | - | - | - | - | 494,505,998 | 494,505,998 |
| Non-controlling interests | - | - | - | - | - | 65,854,384 | 65,854,384 |
| Total equity | - | - | - | - | - | 560,360,382 | 560,360,382 |
| Total liabilities and equity | 663,011,854 | 340,757,649 | 388,640,559 | 561,829,682 | 360,525,695 | 4,811,295,309 | 7,126,060,748 |
| Interest rate re-pricing sensitivity gap | 381,892,895 | 2,315,299 | (103,228,664) | (10,674,391) | 2,296,162,530 | (2,566,467,669) | - |
| Cumulative gap | 381,892,895 | 384,208,194 | 280,979,530 | 270,305,139 | 2,566,467,669 | - | - |

| 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. $ |
| 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 |
| 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 | - | - |

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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | 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 | (881,043) | 10 | 23,957 |
| Other currencies | 10 | 467,744 | 10 | 627,883 |

Following is the foreign currencies position of the Bank:

| December 31, 2023 | JOD<br>U.S. $ | ILS<br>U.S. $ | Others<br>U.S. $ | Total<br>U.S. $ |
|---|---|---|---|---|
| Assets | | | | |
| Cash and balances with Palestine Monetary Authority | 131,710,506 | 1,342,676,631 | 11,691,788 | 1,486,078,925 |
| Balances, deposits and investments at Banks and financial institutions | 235,823,526 | 107,552,047 | 62,305,246 | 405,680,819 |
| Direct credit facilities and Islamic financing | 309,072,704 | 1,825,712,075 | 87,086,811 | 2,221,871,590 |
| Financial assets at fair value through other comprehensive Income | 37,514,029 | - | 2,619,663 | 40,133,692 |
| Financial assets at amortized cost | 42,121,229 | - | 8,695,928 | 50,817,157 |
| Other assets | 6,639,481 | 36,968,690 | 555,528 | 44,163,699 |
| Forward deals | 5,269,341 | 56,715,632 | - | 61,984,973 |
| Total assets | 768,150,816 | 3,369,625,075 | 172,954,964 | 4,310,730,855 |
| Liabilities | | | | |
| Palestine Monetary Authority deposits | - | 198,329,395 | 5,911,764 | 204,241,159 |
| Banks and financial institutions' deposits | 2,100,092 | 71,554,757 | 3,083,168 | 76,738,017 |
| Customers' deposits | 725,979,645 | 2,668,048,651 | 132,179,484 | 3,526,207,780 |
| Cash margins | 19,015,990 | 206,519,548 | 5,963,593 | 231,499,131 |
| Loans and borrowings | - | - | 10,533,146 | 10,533,146 |
| Other liabilities | 10,245,794 | 23,377,194 | 4,009,871 | 37,632,859 |
| Forward deals | 6,011,283 | 210,605,964 | 6,596,496 | 223,213,743 |
| Total liabilities | 763,352,804 | 3,378,435,509 | 168,277,522 | 4,310,065,835 |
| Consolidated statement of financial position concentration, net | 4,798,012 | (8,810,434) | 4,677,442 | 665,020 |
| Off-balance sheet potential commitments | 100,214,129 | 224,394,709 | 36,120,425 | 360,729,263 |

| December 31, 2022 | JOD | ILS | Others | Total |
|---|---|---|---|---|
| Total assets | 857,185,307 | 2,959,535,347 | 182,745,967 | 3,999,466,621 |
| 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 |

## 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:

| | | 2023 | | 2022 | |
|---|---|---|---|---|---|
| Market index | Increase in index<br>(%) | Effect on consolidated income statement<br>U.S. $ | Effect On equity<br>U.S. $ | Effect on consolidated income statement<br>U.S. $ | Effect on equity<br>U.S. $ |
| Local markets – Quoted | 10 | 57,756 | 2,254,618 | 64,405 | 2,496,848 |
| Local markets – Unquoted | 10 | 328,987 | 897,979 | 348,485 | 991,296 |
| Foreign markets – Quoted | 10 | 99,152 | 2,666,115 | 85,874 | 2,199,404 |
| Foreign markets – Unquoted | 10 | 293,436 | 271,135 | 418,065 | 265,075 |

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, 2023 and 2022, respectively:

| | 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 |
|---|---|---|---|---|---|---|---|---|
| December 31, 2023 | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Assets | | | | | | | | |
| Cash and balances with Palestine Monetary Authority | 282,378,741 | 13,770,679 | - | - | - | - | 1,491,462,322 | 1,787,611,742 |
| Balances, deposits and investments at Banks and financial institutions | 727,465,710 | 152,442,479 | 41,230,595 | 15,916,582 | 5,190,123 | - | 62,962,221 | 1,005,207,710 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | - | 7,793,301 | 7,793,301 |
| Direct credit facilities and Islamic financing | 367,982,337 | 165,866,133 | 223,896,714 | 520,382,944 | 400,354,867 | 2,160,525,232 | - | 3,839,008,227 |
| Financial assets at fair value through other comprehensive income | - | - | - | - | - | - | 60,898,466 | 60,898,466 |
| Financial assets at amortized cost | 8,831,543 | 24,764,336 | 20,284,586 | 14,855,765 | 56,931,898 | 33,686,105 | - | 159,354,233 |
| Investment in associates and a joint venture | - | - | - | - | - | - | 11,858,121 | 11,858,121 |
| Investment properties | - | - | - | - | - | - | 24,776,440 | 24,776,440 |
| Property, plant and equipment and right of use assets | - | - | - | - | - | - | 102,657,226 | 102,657,226 |
| Deferred tax assets | - | - | - | - | - | - | 29,084,742 | 29,084,742 |
| Projects in progress | - | - | - | - | - | - | 2,268,294 | 2,268,294 |
| Intangible assets | - | - | - | - | - | - | 14,735,600 | 14,735,600 |
| Other assets | 48,091,961 | 7,054,889 | 7,356,622 | 3,434,877 | - | - | 14,868,297 | 80,806,646 |
| Total assets | 1,434,750,292 | 363,898,516 | 292,768,517 | 554,590,168 | 462,476,888 | 2,194,211,337 | 1,823,365,030 | 7,126,060,748 |
| Liabilities | | | | | | | | |
| Palestine Monetary Authority deposits | 100,808,827 | 12,150,568 | 30,506,406 | 44,372,955 | 15,583,660 | - | - | 203,422,416 |
| Banks and financial institutions' deposits | 186,551,100 | 6,342,562 | 2,987,336 | 6,092,526 | 2,565,245 | - | - | 204,538,769 |
| Customers' deposits | 4,349,958,070 | 300,760,996 | 295,745,740 | 429,088,823 | 82,712,479 | 20,293,957 | - | 5,478,560,065 |
| Cash margins | 69,038,827 | 19,936,313 | 47,924,299 | 66,247,656 | 39,209,755 | 86,810,379 | - | 329,167,229 |
| Subordinated loan | - | - | 7,500,000 | 7,500,000 | 27,500,000 | 2,500,000 | - | 45,000,000 |
| Loans and borrowings | - | 1,538,462 | 3,701,168 | 7,053,672 | 26,103,572 | 35,648,727 | - | 74,045,601 |
| Deferred tax liabilities | - | - | - | - | - | - | 2,686,546 | 2,686,546 |
| Istidama loans | 29,205 | 28,748 | 275,610 | 1,474,050 | 19,309,646 | 2,288,275 | - | 23,405,534 |
| Sundry provisions | - | - | - | - | - | 10,447,743 | 42,644,117 | 53,091,860 |
| Taxes provisions | - | - | - | 8,287,973 | - | 13,672,251 | - | 21,960,224 |
| Lease liabilities | 910,130 | 601,058 | 433,786 | 1,724,494 | 11,008,402 | 6,421,278 | 5,995,526 | 27,094,674 |
| Other liabilities | 73,051,169 | 376,476 | 8,869,067 | 10,793,277 | 3,518,623 | 2,753,777 | 3,365,059 | 102,727,448 |
| Total liabilities | 4,780,347,328 | 341,735,183 | 397,943,412 | 582,635,426 | 227,511,382 | 180,836,387 | 54,691,248 | 6,565,700,366 |
| Equity | | | | | | | | |
| Paid-in share capital | - | - | - | - | - | - | 230,677,334 | 230,677,334 |
| Perpetual bond | - | - | - | - | - | - | 30,000,000 | 30,000,000 |
| Additional paid-in capital | - | - | - | - | - | - | 29,575,688 | 29,575,688 |
| Statutory reserve | - | - | - | - | - | - | 69,285,414 | 69,285,414 |
| 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 | - | - | - | - | - | - | (106,169) | (106,169) |
| Retained earnings | - | - | - | - | - | - | 86,452,694 | 86,452,694 |
| Total equity holders of the Bank | - | - | - | - | - | - | 494,505,998 | 494,505,998 |
| Non-controlling interests | - | - | - | - | - | - | 65,854,384 | 65,854,384 |
| Total equity | - | - | - | - | - | - | 560,360,382 | 560,360,382 |
| Total liabilities and equity | 4,780,347,328 | 341,735,183 | 397,943,412 | 582,635,426 | 227,511,382 | 180,836,387 | 615,051,630 | 7,126,060,748 |
| Maturity gap | (3,345,597,036) | 22,163,333 | (105,174,895) | (28,045,258) | 234,965,506 | 2,013,374,950 | 1,208,313,400 | - |
| Cumulative gap | (3,345,597,036) | (3,323,433,703) | (3,428,608,598) | (3,456,653,856) | (3,221,688,350) | (1,208,313,400) | - | - |

| December 31, 2022 | Less than a month U.S. $ | More than 1 month to 3 months U.S. $ | More than 3 months to 6 months U.S. $ | More than 6 months up to 1 year U.S. $ | More than 1 year to 3 years U.S. $ | More than 3 years U.S. $ | Without maturity U.S. $ | Total 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 | 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 | - | - |

The following table shows the balances of the Bank's undiscounted consolidated financial liabilities as on December 31, 2023 and 2022 according to the contractual maturity period:

| December 31, 2023 | 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 | 101,108,268 | 12,272,074 | 31,812,758 | 46,540,152 | 15,739,497 | - | - | 207,472,749 |
| Banks and financial institutions' deposits | 186,788,846 | 6,350,645 | 2,991,143 | 6,100,290 | 2,568,514 | - | - | 204,799,438 |
| Customers' deposits | 4,364,016,207 | 301,732,991 | 296,701,527 | 430,475,547 | 82,979,788 | 20,359,543 | - | 5,496,265,603 |
| Cash margins | 69,729,215 | 20,135,676 | 48,403,542 | 66,910,133 | 39,601,853 | 87,678,483 | - | 332,458,902 |
| Subordinated loan | - | - | 8,075,962 | 8,075,963 | 29,629,850 | 2,702,200 | - | 48,483,975 |
| Loans and borrowings | - | 2,167,373 | 3,795,239 | 8,361,517 | 30,448,820 | 38,518,458 | - | 83,291,407 |
| Istidama loans | 29,351 | 28,892 | 276,988 | 1,481,420 | 19,406,194 | 2,299,716 | - | 23,522,561 |
| Lease liabilities | 955,637 | 631,111 | 455,475 | 1,810,719 | 11,558,822 | 6,742,342 | 5,995,526 | 28,149,632 |
| Sundry provisions | - | - | - | - | - | 10,447,743 | 42,644,117 | 53,091,860 |
| Taxes provisions | - | - | - | 8,287,973 | - | 13,672,251 | - | 21,960,224 |
| Other liabilities | 73,051,169 | 376,476 | 8,869,067 | 10,793,277 | 3,518,623 | 2,753,777 | 3,365,059 | 102,727,448 |
| Total liabilities | 4,795,678,693 | 343,695,238 | 401,381,701 | 588,836,991 | 235,451,961 | 185,174,513 | 52,004,702 | 6,602,223,799 |

| 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 | 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 |

## 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, 2023:

| | Amount before discount rates / average flows | Amount after discount rates / average flows |
|---|---|---|
| | U.S. $ | U.S. $ |
| Total high quality liquid assets * | 2,177,104,513 | 2,097,413,895 |
| Retail deposits including small institutions' deposits: | | |
| A- Stable deposits | 1,502,405,271 | 75,120,264 |
| B- Less stable deposits | 3,077,116,491 | 269,335,042 |
| Deposits and other unguaranteed facilities for companies without retail and small institutions' customers**:** | | |
| A- Operational deposits | 215,668,955 | 53,917,239 |
| B- Non-operational deposits | 1,558,807,604 | 583,050,784 |
| Guaranteed financing and deposits | 6,353,998,321 | 981,423,329 |
| Non-cancelled and cancelled credit lines and required liquidity within 30 days | 439,472,763 | 98,840,588 |
| Any other cash outflows | 213,353,088 | 13,659,566 |
| Total cash outflows | 7,006,824,172 | 1,093,923,483 |
| Guaranteed lending | 58,181,235 | 29,090,617 |
| Cash inflow from performing loans | 877,939,741 | 795,704,668 |
| Total cash inflow | 936,120,976 | 824,795,285 |
| Net cash outflow after adjustments | | 273,480,871 |
| | | |
| Total high-quality liquid assets after adjustments | | 2,097,413,895 |
| Net cash outflow after adjustment | | 273,480,871 |
| Liquidity Coverage Ratio (%) | | 767% |

* Based on the Palestinian Monetary Authority Instructions No. (4/2018), high-quality liquid assets, include cash and balances with the Palestinian Monetary Authority (note 5), investments in stocks and listed bonds after deducting any investments in financial institutions.

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 | | 568,175,310 |
| Total high-quality liquid assets after adjustments | | 1,936,312,730 |
| Net cash outflow after adjustment | | 568,175,310 |
| Liquidity Coverage Ratio (%) | | 341% |

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, 2023:

| | 2023 |
|---|---|
| | U.S. $ |
| Regulatory capital | 623,603,896 |
| Stable retail deposits and small institutions | 1,441,948,097 |
| Less stable retail deposits and small institutions | 2,588,123,923 |
| Guaranteed and unguaranteed financing (deposits) | 627,317,227 |
| Other deposits and financing | 23,270,076 |
| Other commitments (not included in the previous categories) | 220,687,755 |
| Gross stable financing available | 5,524,950,974 |
| | |
| Level 1 unrestricted high quality liquid assets | 646,577 |
| Level 2 -type (A) unrestricted high quality liquid assets | 37,827,917 |
| Level 2 -type (B) unrestricted high quality liquid assets | 49,061,216 |
| Loans | 2,595,350,546 |
| Debt instruments issued or guaranteed by banks and financial institutions | 29,714,740 |
| Other unquoted investments (not included in the previous categories) | 39,745,002 |
| Other quoted investments (not included in the previous categories) | 104,918,463 |
| Non-performing loans | 39,923,856 |
| Other assets | 531,648,213 |
| Contingent non-cancelled and cancelled credit facilities and liquidity | 17,952,514 |
| Other future and potential financing commitments: | 10,847,878 |
| Other non-contractual commitments | 2,994,602 |
| Off balance sheet exposures not included in the previous categories | 7,778 |
| Total stable financing required | 3,460,639,302 |
| | |
| Net stable financing ratio | 160% |

The table below shows the calculation of the net stable financing ratio for the year ending on December 31, 2022:

| | 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) | 206,506,846 |
| Gross stable financing available | 5,050,803,073 |
| | |
| 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 |

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, 2023:

| | 2023 |
|---|---|
| | U.S. $ |
| Total Exposure Scale | 7,785,302,042 |
| 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 | 5,395,104 |
| Amendments related to securities financing operations | - |
| Amendments related to items outside the statement of financial position | 392,043,660 |
| Other amendments/exposures | 18,851,860 |
| Total Leverage Exposure Scale | 7,369,011,418 |
| | |
| First tranche of capital | 522,207,352 |
| Leverage Ratio | 7.09% |

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% |

## 49. 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 are the Bank's business segments according to operations:

| December 31, 2023 | Retail | Corporate, institutions and public sector | Treasury | Other | Total |
|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Gross revenues | 144,617,747 | 179,967,382 | 72,763,643 | 4,292,144 | 401,640,916 |
| Provision of expected credit losses and other impairment losses | (27,530,987) | (75,303,904) | 331,068 | (33,208,345) | (135,712,168) |
| Segment results | | | | | 265,928,748 |
| Unallocated expenses | | | | | (247,992,494) |
| Profit before taxes | | | | | 17,936,254 |
| Taxes expense | | | | | (1,445,740) |
| Profit for the year | | | | | 16,490,514 |
| Other information | | | | | |
| Depreciation and amortization | | | | | (17,991,164) |
| Capital expenditures | | | | | (12,138,900) |
| Gross segment assets | 1,201,391,132 | 2,637,617,095 | 3,032,723,573 | 254,328,948 | 7,126,060,748 |
| Gross segment liabilities | 3,851,492,987 | 1,956,234,307 | 550,412,320 | 207,560,752 | 6,565,700,366 |

| December 31, 2022 | Retail | Corporate, institutions and public sector | Treasury | Other | Total |
|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Gross revenues | 120,881,928 | 178,440,069 | 54,946,263 | 4,691,287 | 358,959,547 |
| Provision of expected credit losses | (9,274,498) | (15,900,477) | (3,579,449) | 300,000 | (28,454,424) |
| Segment results | | | | | 330,505,123 |
| Unallocated expenses | | | | | (223,167,290) |
| 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 | 1,111,337,483 | 2,460,717,382 | 2,717,810,773 | 198,095,219 | 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 |

## 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 | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Gross revenues | 357,446,959 | 344,199,573 | 44,193,957 | 14,759,974 | 401,640,916 | 358,959,547 |
| Gross segment assets | 6,031,372,985 | 5,681,427,246 | 1,094,687,763 | 806,533,611 | 7,126,060,748 | 6,487,960,857 |
| Capital expenditures | 12,138,900 | 8,872,172 | - | - | 12,138,900 | 8,872,172 |

## 50. 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. $ 6,718,757 and U.S. $ 6,525,050, respectively, through stock dividends. In addition to issuing a perpetual bond for an amount of U.S. $ 30 million as part of the additional first tier from the Bank's capital base during the period (note 29).

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 2023 is computed in accordance with the PMA's instructions No. (8/2018).

The following are the capital adequacy rates:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage to assets | Percentage to risk – weighted assets | Amount | Percentage to assets | Percentage to risk – weighted assets |
| | U.S. $ | % | % | U.S. $ | % | % |
| Regulatory capital | 623,603,896 | 8.75 | 15.38 | 595,599,847 | 9.18 | 15.81 |
| Basic capital | 522,207,352 | 7.33 | 12.88 | 482,612,045 | 7.44 | 12.81 |

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 2023 is computed in accordance with PMA instructions No. (8/2018), as shown in the following table:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Net common stocks (CET 1) | 484,782,312 | 475,970,041 |
| The first bracket of capital | 522,207,352 | 482,612,045 |
| The second bracket of capital | 101,396,544 | 112,987,802 |
| Capital base | 623,603,896 | 595,599,847 |
| Credit risk | 3,485,759,135 | 3,243,537,444 |
| Market risk | 15,586,602 | 32,329,301 |
| Operational risk | 554,516,025 | 490,393,334 |
| Total risk weighted assets | 4,055,861,762 | 3,766,260,079 |
| Percentage of common stocks (CET 1) to risk weighted assets | 11.95% | 12.64% |
| Percentage of the first bracket of capital to risk weighted assets | 12.88% | 12.81% |
| Percentage of the second bracket of capital to risk weighted assets | 2.50% | 3.00% |
| Percentage of the first bracket to assets | 7.33% | 7.44% |
| Percentage of regulatory capital to assets | 8.75% | 9.18% |
| Capital adequacy ratio | 15.38% | 15.81% |

51. Commitments and contingent liabilities

The total outstanding commitments and contingent liabilities are as follows:

| | 2023 | 2022 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Letters of guarantees | 226,608,337 | 212,390,048 |
| Letters of credit | 42,431,138 | 38,797,292 |
| Acceptances | 7,810,133 | 7,784,207 |
| Unutilized direct credit facilities limits | 359,050,289 | 315,491,295 |
| Others | 155,551 | 196,950 |
| | 636,055,448 | 574,659,792 |
| Less: | | |
| Provision of expected credit losses (note 27) | (3,377,610) | (552,520) |
| | 632,677,838 | 574,107,272 |

Outstanding forward deals contracts for the sale and purchase of currencies for existing customers as at December 31, 2023 and 2022 amounted to U.S $ 5,449,600 and U.S. $ 9,909,602, 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:

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 501,911,321 | 72,748,471 | - | 574,659,792 |
| Net change during the year | (32,164,449) | 93,560,105 | - | 61,395,656 |
| Balance ending of the year | 469,746,872 | 166,308,576 | - | 636,055,448 |

| | 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 |

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

| | 2023 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 177,133 | 375,387 | - | 552,520 |
| Net expected credit losses for the year | (4,650) | 2,829,740 | - | 2,825,090 |
| Balance ending of the year | 172,483 | 3,205,127 | - | 3,377,610 |

| | 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 |

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

## 52. Lawsuits against the Bank

The number of lawsuits filed against the Bank and its subsidiaries as at December 31, 2023 and 2022 was (200) and (244), respectively and that's within the normal course of business with a total amount of U.S. $ 65,374,211 and U.S. $ 67,518,916, 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 2024.

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 legal advisor, the lawsuit is at its early stages and any financial effect is not predictable at the date of the consolidated financial statements, as the defenses raised by the motion are strong ones.

## 53. 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.

## 54. War on Gaza Strip

At the beginning of October 2023, Gaza Strip was exposed to a war, which significantly affected all economic activities in the Strip, in addition to the complete or partial destruction of many entities and properties. The economic activity in the West Bank was also affected due to closures and restrictions on the movement of individuals and goods between the cities of the West Bank and between the West Bank and both Israel and Jordan, preventing tens of thousands of Palestinian workers from reaching their workplaces in Israel.

These events are expected to negatively affect the economic activities in Palestine, potentially leading to a decrease in private sector revenues, workers' earnings, government revenue from taxes and local fees, clearance revenues, and consequently, the ability of customers to meet their obligations on time. The Bank's exposure to the facilities granted to the government, its employees, and green line workers are disclosed in Note (8).

Managements actions

In response to the war on Gaza Strip, and from the first day, the Bank activated its business continuity and crisis management plans to address the effects of this war on the Bank, which included several measures as follows:

- Identifying possible closure scenarios in the West Bank and Gaza Strip to ensure the continuity of the Bank's functions and defining responsibilities for emergency teams for different scenarios.
- Activating the business continuity committee at the subsidiary company level
- Conduct risk assessments and stress scenarios for the following:
  1- Cash and liquidity
  2- The credit facilities portfolio and the provision for expected credit losses
  3- Non-financial assets
  4- Long term risks

In general, the Bank's management anticipates that this event will impact some of the Bank's operational activities, revenues, and investments, especially those derived from Gaza strip.

The Bank's exposures in Gaza Strip

As of December 31, 2023, the net book value of the Bank's assets in Gaza amounted to U.S. $ 712 million net of impairment provisions amounted to U.S. $ 178 million. These provisions were calculated by management according to its best estimate and based on available information in light of the state of uncertainty that is beyond management's control due to the continuation of the war on Gaza Strip.

The following are the details of the bank's exposure and related impairment provisions in Gaza:

| | Nearest U.S. $ million | | |
|---|---|---|---|
| Sector | Exposure | Impairment provision / losses | Net book value |
| Cash in vaults (A) | 229 | 31 | 198 |
| Direct facilities (B) | 649 | 144 | 505 |
| Non-financial assets (C) | 12 | 3 | 9 |
| | 890 | 178 | 712 |

A- Cash in vaults:

The total cash in the vaults at branches of Bank of Palestine and Arab Islamic Bank (a subsidiary) in Gaza Strip amounted to approximately U.S. $ 229 million as of December 31, 2023. The actual cash losses incurred due to the war amounted to approximately U.S. $ 31 million. The Bank's management was unable to conduct a physical count of this cash at some branches in Gaza Strip due to the continuation of the war. The bank's management is closely and continuously following up on developments on the ground to try to identify any damage to cash in Gaza Strip as soon as it is able to do so. Subsequent to the date of the consolidated financial statements, some branches of the Bank in Gaza were subjectto damages and attacks. The Bank's management was unable to quantify the value of these damages due to the ongoing war.

B- Credit facilities:

The Bank conducted a study of the sectors affected by the war, the net credit facilities in Gaza Strip amounted to U.S. $ 505 million net of provisions in an amount of U.S $ 144 million. The net credit exposure granted to individuals employed by the Palestinian Authority in Gaza Strip constitutes 64% of the net credit exposure in Gaza Strip, while most of the remaining credit exposure is related to the Bank's employees and to individuals employed by international institutions or large private sector companies that have strong financial solvency, and it is expected that these parties will fulfill their obligations.

The Bank evaluated its borrowers for other indications of inability to pay, considering the underlying cause of any financial difficulty, and whether it is likely to be temporary as a consequence of the war or as a long-term financial difficulty. The Bank also updated the macroeconomic factors in addition to changing the weighted probabilities of the macroeconomic scenarios by assigning higher weight for the worst-case scenario. These changes negatively affected the calculation of the allowance for expected credit losses. The bank also classified the portfolio of credit facilities in Gaza Strip, Palestinian labor in Israel, and sectors most affected by the war, such as the tourism sector, within stage 2 and 3 for the purpose of calculating expected credit losses, ECL taking into account the requirements of the Palestine Monetary Authority in particular, in addition to taking additional measures, more conservative scenarios, and individual assessments for many accounts.

C- Non-financial assets:

The net book value of non-financial assets in Gaza amounted to approximately U.S. $ 12 million as at December 31, 2023, representing some properties, equipment, and assets seized by the Bank and investment properties. As a result of this war, the Bank and its subsidiaries recorded provisions for possible impairment in the value of these assets amounting to U.S. $ 3 million, noting that these assets are covered by valid insurance policies. The recoverable value of non-financial assets cannot be measured at present time due to ongoing war.

Cash Liquidity

Management has reviewed current and expected liquidity ratios, continuity plans and stress tests in accordance with changing circumstances. The Bank regularly monitors the liquidity status to ensure that there are sufficient levels of liquidity to meet its expected needs and continue its operations .

The liquidity coverage ratio (LCR) is (742%) and the net stable financing ratio (NSFR) is (159%), which is higher than the percentages specified by the Palestine Monetary Authority of 100%, as shown in Note (48).

Operational risks

Since the beginning of the events on October 7, 2023, the Bank branches in the northern areas of Gaza Strip have remained closed. However, branches in the central and southern areas have opened their doors to the public during temporary ceasefires. The management is making efforts to continue feeding and operating ATMs in areas where field conditions allow, enabling customers to conduct their cash banking transactions, whether they are Bank customers or customers of other Banks, through the Palestinian National Switch under the supervision of the Palestine Monetary Authority.

As for the West Bank, business operations are managed through the main headquarters of the General Administration in Ramallah, with customer service provided in all areas. The Bank believes it has sufficient financial resources to continue its operations efficiently by taking necessary measures to adapt to emerging changes and ensure the Bank's ability to maintain continuity through the implementation of continuity plans.

As a result, the ongoing effects of this continuous war remain unclear on some sectors of the Bank's operations and cannot be accurately predicted at the current time. The management continues to monitor this event and study its potential impacts. The management believes that there are no substantial doubts about the ability of the Bank or its subsidiaries to continue their operations, and that the measures taken will ensure the preservation of the Bank's financial strength and solvency.

## 55. 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.

## 56. Comparative figures

Some of the balances of the consolidated financial statements as at December 31, 2022 have been reclassified to match the presentation of the balances of the consolidated financial statements as at December 31, 2023. These reclassifications do not affect the profits of previous years or equity.