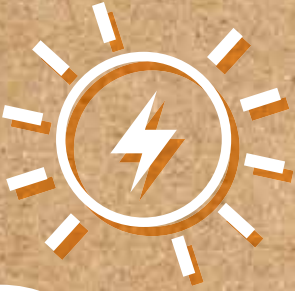




بنك فلسطين
BANK OF PALESTINE

تأسس عام 1960 Established



Sustainability Report 2021

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List of Acronyms

AFD	French Development Agency
AGM	Annual General Meeting
AIB	Arab Islamic Bank
AML	Anti-money Laundering
APIC	Arab Palestinian Investment Company
BOD	Board of Directors
BOP	Bank of Palestine
BOPG	Bank of Palestine Group
BRC	Board Risk Committee
CDD	Customer Due Diligence
CSO	Civil Society Organizations
CSR	Corporate Social Responsibility
CTF	Counter-Terrorism Financing
DBR	Debt Burden Ratio
E&S	Environmental & Social
EC	Executive Committee
EMEA	Europe, Middle East & Africa
EQA	Environmental Quality Authority
ESG	Environmental, Social, and Governance
ESOP	Employee Stock Ownership Plan
FISEA	Fonds d'investissement et de soutien aux entreprises en Afrique
GABV	Global Alliance for Banking on Values
GRI	Global Reporting Initiative's
KPIs	Key Performance Indicators

KYC	Know Your Client
LCA	Life Cycle Assessment
MEIRA	Middle East Investor Relations Association
NAPCO	National Aluminum and Profiles Company
NGO	Non-governmental Organizations
P/E	Price-to-earnings
PCMA	Palestine Capital Markets Authority
PEX	Palestinian Stock Exchange
PMA	Palestinian Monetary Authority
POS	Point-of-sale
SDG	Sustainable Development Goals
SME	Small and Medium-sized Enterprises
UNGC	United Nation's Global Compact
UNICEF	United Nations Children's Fund
UNRWA	The United Nations Relief and Works Agency
WHO	World Health Organization

Message from the Chairman



I am extremely proud of the Bank of Palestine and its dedication to implementing a comprehensive sustainability strategy in accordance with international standards and best practices. This commitment builds on years of our bank's values-based services to the real economy and all segments of our society. The year 2021 marked the serious decision of the board of directors to enshrine these values in a sustainability strategy, with a sustainability committee at the board level, a dedicated sustainability team, and ESG commitments across operations. This year, we are releasing our first sustainability report. This report will be inclusive of our commitments for measuring our environmental impact, setting up more structured mechanisms to report the environmental impact of our lending facilities, and working across our stakeholder map to factor in the materiality of topics of community concern. We have also realigned our corporate responsibility strategy, which has served as a powerful instrument in serving the community and reducing inequalities and vulnerabilities among different segments of our society through the past decade. This undercurrent strategic thrust ensures that our bank is accountable to its stakeholders, remains environmentally conscious, is actively inclusive of all people, and contributes to prosperity.

We operate in a difficult environment, restricted by political and economic constraints, which frequently impose other priorities on our agenda than environmental and sustainability practices. While we remain vigilant and work to mitigate these risks and challenges, we remain equally focused on our responsibilities to the environment, our people, and our governance. These commitments have existed in various forms and formats within the bank since its inception. This year, however, we will properly report them and align them with the business strategy. Our disclosure of our ESG and sustainability commitments will evolve as we begin to take steps to reduce our carbon footprint both within and beyond bank as a result of our operations. We are proud to have met incontestable goals, including attaining gender balance on the board of directors and continuing to make significant strides for women's financial inclusion. Alongside these achievements, we must keep working to raise the bar on other metrics. Our priority will be to meet important

milestones in scope one, while also collaborating with our staff, partners, suppliers, and vendors to achieve similar results in scope two in regard to the environment. In 2021, we will continue to invest in our community by resuming our financial inclusion activities for women, including face-to-face meetings and workshops, all while improving our Mini MBA program. We have decided to broaden our engagement with youth and entrepreneurs by investing in the expansion of our Intersect Innovation Hub outside of Ramallah. By financing the real economy through a diverse portfolio of lending to small and medium-sized businesses, we will maintain our economic development leadership.

We are committed to strengthening our commitment to sustainability as we proceed with disclosing our impacts in accordance with international best practices. We look forward to continuing to engage with our stakeholders as we go through this process. We are looking forward to expanding our knowledge from global trends and practices within the ESG sphere. Our participation in the World Economic Forum Stakeholder Capitalism initiative and our membership in the Global Alliance for Banking on Values, allow us to collaborate with like-minded organizations and businesses.

We are deeply appreciative of the trust, participation, and partnership of our stakeholder community and look forward to making even greater advancements in sustainability and economic growth.

Hashim Shawa,
Chairman

Bank of Palestine Group



Message from Head of Sustainability Committee

As Chairwomen of the Board Sustainability Committee at Bank of Palestine, I am honored to contribute a message on behalf of my colleagues at the committee to the Bank's first Sustainability Report, governed by the principles and standards of the Global Reporting Initiative (GRI).

The bank has had a long rooted history with sustainability since its inception, inspired by the values of founders and by the responsibility of the governing bodies towards its community, planet and prosperity. I would like to shed light on the principles that underpin the rising power of sustainability and good practices at our bank and among all peers in the corporate and financial sectors. From a human perspective, the concept of sustainability is intimately intertwined with the world's capacity to sustain humankind with the resources necessary for high quality living for generations to come. These resources include pure air, clean water, and soil that can produce nutritious food and biodiversity. As such, sustainability is not a new concept. Initially, humans were able to breathe fresh air, drink water from clean rivers and springs, eat the produce of the land, hunting animals, and from the wood they collected, they used it to cook and keep warm. What they produced was sufficient to meet their needs. Our planet earth was able to provide all these resources and supported humankind for millions of years when the sustainability of these resources was not an issue. That is until human consumption became excessive and far exceeded the needs. The excessive and irresponsible abuse of natural resources brought about incremental shortages in our plant's resources, depleting the quantity and even quality of these natural resources. What is happening is a dangerous rate of consumption that will threaten the next generation. These challenges while global, but in the Palestine context, take on an added measure of importance due to the occupation and the limited resources of the Palestinian government. With these external challenges, it is hoped that attention to sustainability practices among key stakeholders in Palestine would be elevated. That is why in Palestine we have to be leaders of change and implementers of our values and commitments. We have to engage all stakeholders and we have to be serious about sustainability, by way of disclosing our sustainability practices in a systematic matter and as per international standards of reporting.

As such, it is incumbent upon us as leaders of change to be responsible and instill policies, practices and ensure awareness and attention to sustainability at our own institutions, especially institutions that play a leading role in the economy and the community. That is why bank of Palestine this year took it upon itself to lead by its own example on the subject of sustainability. We have started with governance and putting sustainability at the helm at the board and as a priority in the management and operations of the bank. The bank will start looking at its own practices internally vis vis use of plastic, reducing carbon footprint by replacing fossil fuel electricity with renewable, measuring water consumption, onboarding electric cars to the fleet, and reducing travel to essential need, while encouraging digital banking and paperless transactions. At the external level, the bank is augmenting its green loan programs with grants and technical assistance packages to encourage customers to borrow for energy efficiency and renewable energy projects in partnership with Proparco of the French Development Agency. The demand for such loans is oversubscribed, a sign of the elevation of the climate topic among the community. We are also working with other partners within the government and all stakeholders to ensure we create initiatives and inroads on the subject matter of climate change and environment.

On the community and social investment levels, the bank is leading with its gender balance policies, internally by continuing to raise the percentage of female employees, achieving a regional milestone of 50%-50% gender balance at the board, the highest decision making body of the bank. Externally, the bank is working with community partners to ensure additional financial inclusion of women via specifically design loans targeting women business owners and entrepreneurs. The bank has expanded its financial inclusion to provide interest free loans to people with special needs. Additionally, the bank has streamlined its Corporate Responsibility Strategy towards the sustainability objectives of the bank, donating 5% of profits towards interventions with the most impact on the well-being of society through education and health, on the protection of the environment and planet via green projects, and the prosperity of people by way of financial intermediation to small businesses and micro enterprises.

Although we are taking small steps, but these steps are fundamental in creating the change and proving the concept that sustainability is good not only for the community and the environment but good for business as well. If we deplete our resources and are careless about the footprint of our operations on the environment, on our community, on our staff and clients, we will not have economic development and we shall suffer from depression and stagnation. But if we adopt sustainability measures and enhance investment in the circular economy, with recycling, conservation and reuse, we shall guarantee that our operations are steadfast and our environment and resources are infinite and our generations are preserved. Together we can create hope and together we can be sustainable.

Dr. Tafeeda Jarbawi

Head of Sustainability Committee

Bank of Palestine

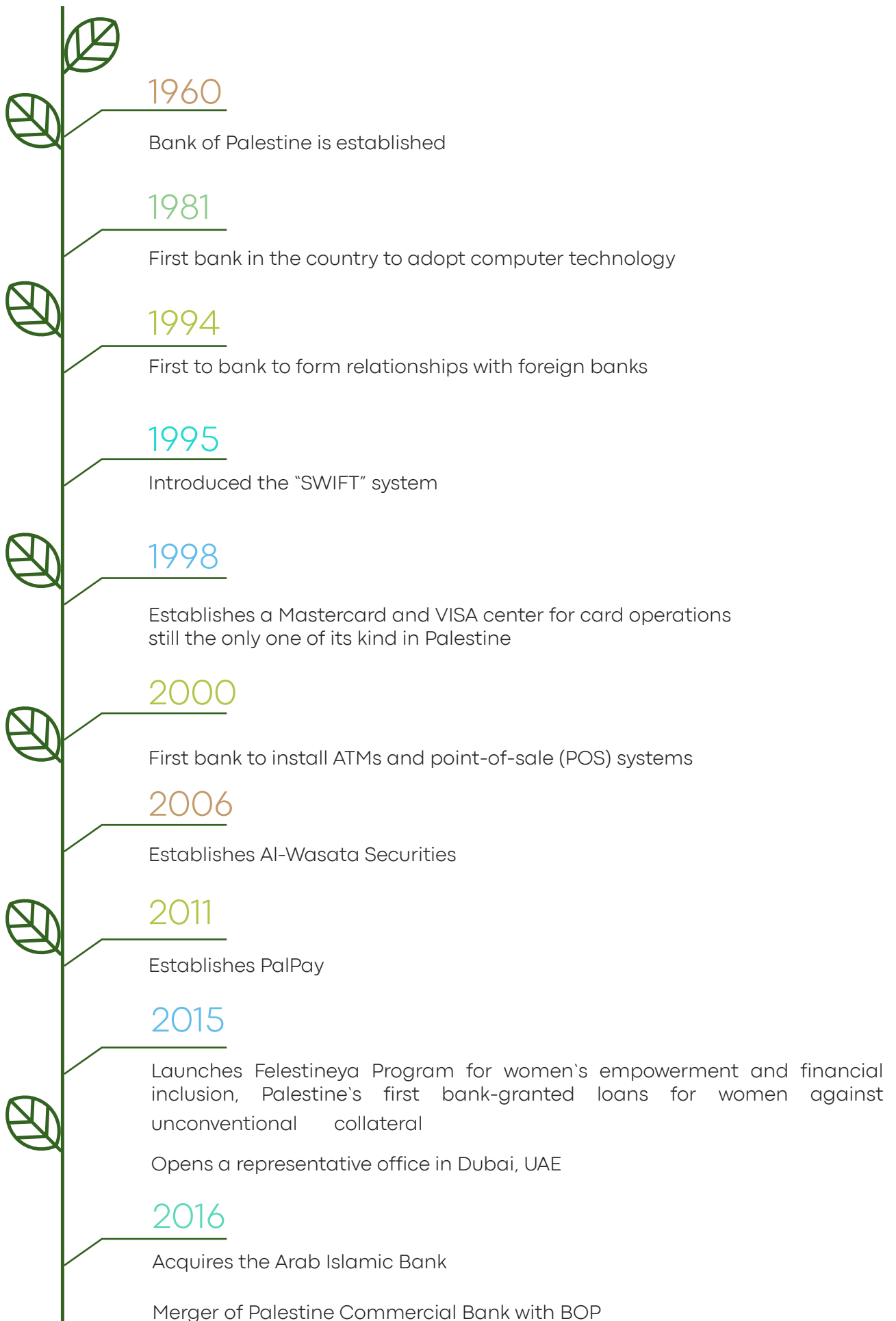
About the Bank of Palestine

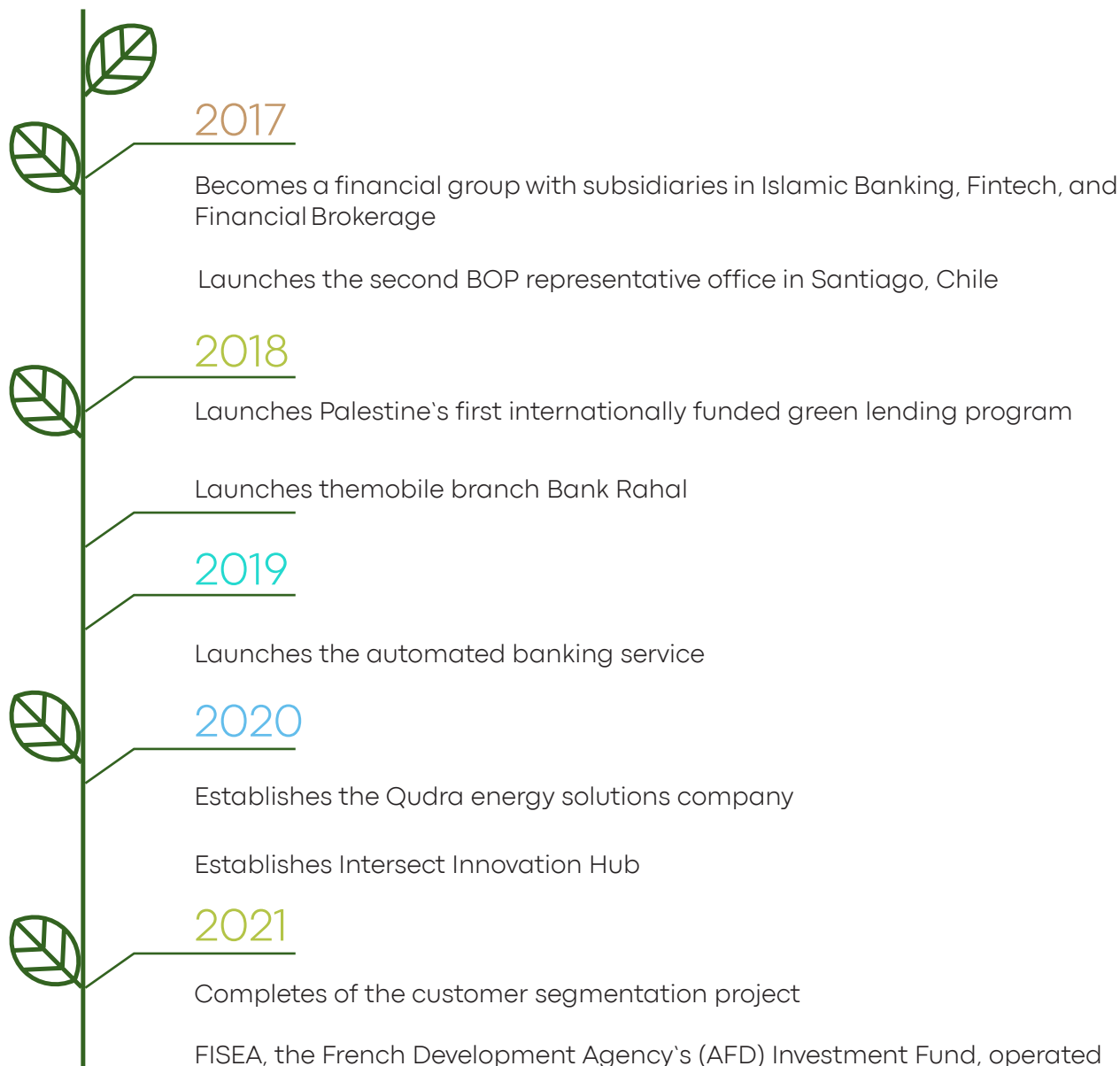
Bank of Palestine (BOP) has, and continues to, play an exemplary role in Palestine's financial history for a variety of reasons. Up until 1960, there were no national entities to respond to the growing demand by Palestinians for financial services and institutional lending. This urgent call for financial intermediation inspired the founders of the bank to create the country's first financial establishment, Bank of Palestine. Our bank was the first national entity to actively provide basic financial services to individuals and small enterprises. In doing so, we established ourselves as leaders within the financial market as BOP, in essence, helped create Palestine's national banking system.

Despite operating in a volatile market, we continue to act as Palestine's largest bank, offering a multitude of personal and business banking services to over 750,000 individual and institutional customers. BOP's diverse clientele includes everyone from leading local and international companies and notable Palestinian businesspeople to disadvantaged and marginalized community members; we serve everyone equally and to the best of our abilities. Since our establishment in 1960, we have created the largest network of branches across the country (governorates in the West Bank and Gaza, and the Holy City of Jerusalem), making BOP best suited to provide fast, convenient, and personalized attention for our clients.

Our services include a vast array of banking products and services which include but are not limited to current and savings accounts; deposits; loans and credit facilities; foreign currency exchange; international money transfers; credit and debit cards; trade finance services; treasury services; custody services; and special programs for financial inclusion and green lending. We have also integrated ourselves within the global economy by establishing international trade relations and offering services for customers that require foreign transaction services. These efforts have been successful in connecting Palestinians in the diaspora with the local economy, despite their accounting for only a small portion of our overall operations.

Timeline


















Today, BOP owns and manages the largest and most comprehensive branch network in Palestine, where we manage most of our operations. Our 73 branches currently account for 19.3% of all bank branches in the country, allowing us to cover all Palestinian cities and towns. Our ATMs and POS networks are also the largest in Palestine, with a total of 159 ATMs and 9,700 POSs across the country, representing 22 percent of the entire network in Palestine. BOP also has two representative offices in Dubai, UAE and Santiago, Chile that primarily focus on connecting diaspora communities outside Palestine with their country and promoting investments and trade with Palestine.

Awards



Over the years, BOP has been extensively recognized for its achievements. In 2021, EMEA Finance magazine awarded us two awards for Best Bank in the Middle East and Best Bank in Palestine. Global Finance also recognized us as the best bank in Palestine for international trade. The bank has also received recognition as best bank in Palestine and the region in CSR and community support numerous times.

Awards over the last few years include:

-  Best Global Bank in Financial Inclusion (The Banker)
-  Best Bank in Palestine (The Banker)
-  Best Bank in Palestine (Euromoney Award for Excellence)
-  Best CEO in the Middle East (EMEA finance)
-  Best Bank in Palestine (Asiamoney)
-  Best Bank in Palestine (CPI Financial/Banker ME)
-  Best Company for Investor Relations in Palestine (Middle East Investor Relations Society)
-  Best IR professional in Palestine (Middle East Investor Relations Society)
-  Performance Excellence Award for Outstanding Achievement in Straight-through Processing (Citibank)
-  Ranked as One of the Top 100 Banks in the Middle East by CPI Financial 100
-  Outstanding Crisis Leadership during Covid 19 (Global Finance)
-  Green Finance Award (EMEA Finance)
-  Best CSR and Financial Inclusion Programs in the Middle East (EMEA Finance)



Bank of Palestine Group

Today, BOP is a part of a larger holding company: the Bank of Palestine Group (BOPG), which also comprises four other subsidiaries: the Arab Islamic Bank, PalPay, Al-Wasata Securities, and Qudra Renewable Energy Solutions. The group has some shares in other Palestinian businesses, and further information regarding that can be found in our most recent financial report for the year 2021.

The diagram below displays the group's organizational structure.

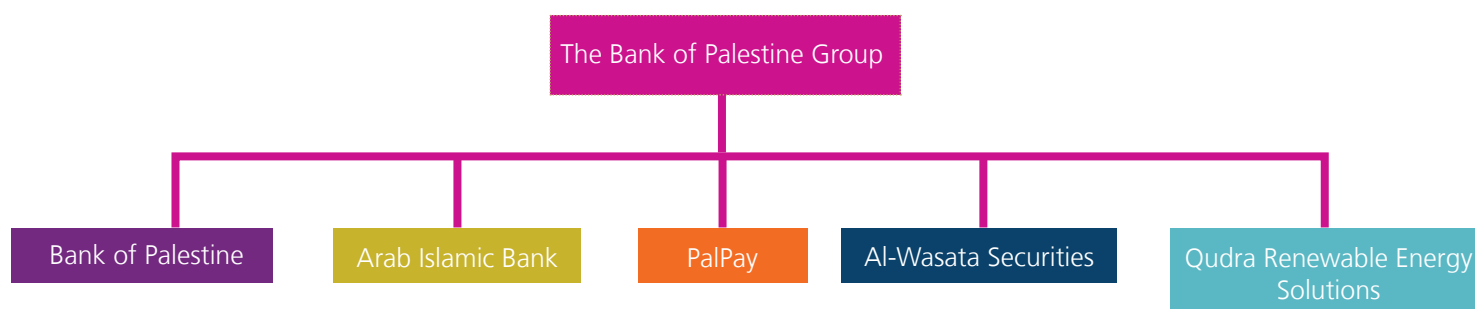


Figure 1: The Bank of Palestine Group

The Arab Islamic Bank

www.aib.ps

Founded in 1995, the Arab Islamic Bank (AIB) offers banking and investment services conforming to Islamic Sharia. Its headquarters are based in Ramallah, and it operates thirty branches across Palestine (including a representative office abroad and one mobile branch). After its acquisition of AIB in 2016, BOPG was able to penetrate the Sharia banking market.

The table below highlights AIB's key performance indicators during the last five years. The table shows that AIB has consistently maintained exceptional growth across all major performance indicators over the reporting period. For additional information regarding AIB, please consult our annual report.

Table 1: Basic Indicators for the Arab Islamic Bank 2017–2021

Year	2017	2018	2019	2020	2021
Assets	1,041	1,062	1,272	1,557	1,737
Deposits	791	848	1,024	1,296	1,420
Profit	6.4	7.1	9.0	8.0	11.7



PalPay—Palestine Payments

www.palpay.ps

PalPay is an innovative electronic wallet and payment system that was created in 2010 and has played a crucial role in promoting financial digitalization and supporting our business continuity plan during the COVID-19 pandemic.

In 2021, PalPay facilitated roughly NIS 2.1 billion in electronic transactions, an increase from NIS 1 billion in 2020. This success expanded company volume by 20% within the last year. Furthermore, this platform has provided alternative banking for over sixty new billers and service providers who now collect their fees and receivables through PalPay's e-commerce platforms.

PalPay has also enabled BOP to promote financial inclusion in Palestine. Its e-Wallet, for instance, enables unbanked users to send and receive money to and from others, pay merchants, withdraw funds, and pay utility bills to PalPay billers. In September 2021, PalPay enhanced this aspect of its services by creating a new system to assist donors and non-governmental organizations (NGOs) in Palestine in disbursing payments directly to their recipients. For additional information regarding PalPay, please consult our annual report.

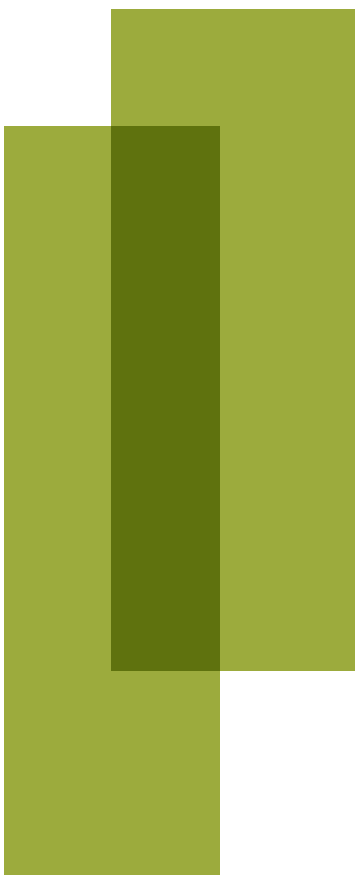


Al-Wasata Securities

www.alwasata.ps

Al-Wasata was founded in 2005 to offer stock brokerage, amongst other financial services, and has continuously been rated as the top broker for attracting new investors in Palestine over the last 15 years.

The company's trading volume increased from USD 158 million in 2020 to USD 283 million in 2021 (including USD 158 million transacted inside Palestine). The value of the company's client portfolio surpassed USD 500 million in 2021, a significant increase from USD 450 million in 2020. Additionally, Al-Wasata established 592 new accounts in 2021, as compared to 392 in 2020.





Qudra Renewable Energy Solutions

www.qudra.ps

Qudra was launched from a unified vision, as a joint project between the National Aluminum and Profiles Company (NAPCO) and the BOPG and aims to provide modern renewable energy solutions at low cost to Palestinian citizens, institutions, and companies.

It was established in 2020 to provide modern renewable energy solutions to individuals and institutions with a long-term guarantee at fair and affordable prices and relying on the latest international technologies.



Our Mandate

One of BOP's early goals was to help create a formal banking sector in the country. We are pleased to have been pioneers in creating the space and platform that allowed for the establishment of many Palestinian banks and will continue to strive to collectively advance the country's banking sector.

Today, we continuously seek to be innovative in our financial services and products to initiate advancement and change within Palestine. We will continue to lead through financial inclusion and investment in the real economy, our community, and our planet.

Vision

Our vision is to be the leading national Palestinian bank distinguished by the provision of sustainable services with a global footprint and horizon.

Mission

We strive to be the leading Palestinian bank distinguished by the development of sustainable financial products and services backed by evidence and innovation and that deepen our impact on Palestine's development and welfare.

Objectives

Our strategic objective is to offer excellent products and services to all our stakeholders and to achieve prosperity while staying committed to global standards of sustainability. Our strategy is based on the triple bottom line, which considers financial, social, and environmental factors as integral for holistic business profitability and long-term success. This outlook has helped us reassess our activities and ensure the objectives of our bank are stakeholder driven, business expansive, of high service quality, community serving, professional, and innovative.

Values

We aim to embed the values of a holistic sustainability paradigm that encompasses international best practices in social, environmental, economic, and governance practices within the Bank's DNA. Our values revolve around respect, excellence, innovation, collectiveness, and prosperity. These values ensure that the activities of our different organizational entities and staff are aligned and oriented towards achieving our vision and fulfilling the needs of our stakeholders.



About this Report

To improve our sustainability management system and adhere to the industry's best practices, BOP has made strides towards adopting a comprehensive sustainability strategy in 2021. Engaging our stakeholders on sustainability practices and evaluating our own performance through a sustainability lens are at the core of this strategy. This report is our primary tool for engaging our different stakeholders on sustainability and is aligned with the **Global Reporting Initiative (GRI) Sustainability Reporting Standards**. The GRI standards are the world's most widely used and accepted reporting framework, whose standards are designed to offer an integrated and inclusive approach. The standards are used to highlight and report on an organization's operational activities and measure their impacts on the economy, the environment, and different stakeholders through comparable and reliable parameters. This report also fulfills the requirements of our Communication on Progress as members of the United Nations Global Compact.

This report was developed by our newly established Sustainable Banking Department, with the support of an external consulting team, which provided guidance on measures relating to the GRI standards. The data presented in this report was collected by a team of experts within BOP, including representatives from different departments including Sustainability, Corporate Affairs, Risk Management, Operations, Human Resources, Finance, Compliance, and Audit. The Board of Directors (BOD) and senior management reviewed and approved this report in August 2022.

We are publishing this report to attest to our commitment to responsible business management and to disclose our environmental, social, and governance (ESG) performance to our stakeholders or to any other interested entities. We intend to publish sustainability reports at least once every two years to keep our stakeholders informed and updated on our ESG developments and impacts.



Scope

This report addresses our performance between 01/01/2021 and 31/12/2021. There are also references to historical performance data to offer a better understanding of the bank's development over time. Any information or indicators relating to different periods will only be presented to offer a more informed view of our performance and progression and will be marked accordingly.

As explained in the previous sub-section, BOP is the major subsidiary of the Bank of Palestine Group (BOPG). The report only focuses on BOP and will not address nor aim to evaluate the ESG performance of BOPG's other subsidiaries, while financial information pertains to consolidated financial results of the entire group as per the disclosed financial information.

On occasion, the report may analyze intersecting activities that relate to BOPs' ESG initiatives. BOPG is evaluating different approaches for communicating their sustainability impacts, either through one consolidated report or through each subsidiary independently publishing its own sustainability report within an agreed upon period. We will decide on the best path before the end of 2023.

Finally, this report will only focus on BOP's activities within Palestine. Despite having representative offices overseas, the bank's activities outside Palestine are generally immaterial to the topics discussed in this report.

A vertical decorative strip on the left side of the page featuring a repeating pattern of green line-art icons. These icons represent various sustainability themes: water droplets, a lightbulb, a recycling symbol, a leaf, a person, a gear, and a bicycle.

Data and Content Development

This report has been prepared in accordance with the GRI Standards: Core Option. We used both quantitative and qualitative data to develop the report. Data was collected from interviews and focus groups with key internal and external stakeholders, as well as from our records and information systems.

We used the materiality principle to prioritize topics most significant to our stakeholders or of most relevance and influence to our company. To validate these topics, we also conducted a series of online stakeholder engagement sessions with a diverse group of internal and external stakeholders at the end of 2021.

The data acquired allowed us to evaluate our performance concerning most of material topics identified. We were unable to gather quantitative data to evaluate performance related to some of our direct environmental impacts, including energy use, greenhouse gas emissions, water usage, and solid waste. We intend to monitor these variables going forward and to present our findings by the next reporting period. This will likely be done by completing a Life Cycle Assessment (LCA) for our key consumables, which will be used to quantify our impacts on greenhouse gas emissions, water consumption, and solid waste. Doing so will better prepare us to analyze the impacts of our special environmental programs, such as our green financing programs. BOP is also planning to digitize all its sustainability data. Creating a digital record will allow us to share our data with stakeholders and other organizations, such as rating agencies and investors, more efficiently. We plan to finalize this system by 2025.

Report Assurance and Verification

BOP has been focused on integrating and improving its sustainability management system and disclosure practice which has not given us the opportunity to formulate a process to verify and audit the content of our sustainability reports. The BOD and senior management have approved the final content for this report, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report. We plan to seek independent review and assurance for our reports at the beginning of our second or third reporting cycle.

Contact Point

The point of contact for this report is our Chief Strategic Relations & Engagements Officer, Mr. Kamel Hussein and Head of the Sustainable Banking Department, Ms. Hiba Tantash. They can be reached at kamel.husseini@bankofpalestine.com and hiba.tantash@bankofpalestine.com. BOP looks forward to receiving feedback on this report from any and all interested stakeholders.



Our Sustainability Approach

Evolution

We have been conscious of the integral role that we play in Palestine's economy and society since our establishment. This has meant that we have been continuously evolving our approach to doing business in a manner that equally prioritizes financial returns and the welfare of our employees, customers, business partners, surrounding communities, and planet. Over the past two years, we have been working on re-thinking our approach to doing business and combining the different initiatives that we have already adopted into a solid and comprehensive sustainability mandate and strategy.

Our ESG contribution was, previously, regarded as a contribution we made towards society through our Corporate Social Responsibility (CSR) department. This is even though we had been adopting multiple other core-business related endeavors to enhance the social and environmental returns of our business activities. While we continue to dedicate up to 5% of our profits to community development projects, we are working on maximizing the socio-economic value we create through better management and planning of ESG risks and opportunities across our entire organization. In doing so, our understanding of sustainability has expanded to much more than "giving back" to society.

Today, we realize and operate from the stand point that our services are our core sustainability drivers and are an integral part of the design and implementation of our sustainability approach. We also aspire to maximize their positive economic, environmental, and social impacts and to mitigate the risks associated with them.

In other words, the impacts of our operations are multi-faceted as we provide job opportunities via our operations; foster the well-being of our staff members; support disadvantaged and marginalized communities across the country through our services and social investments; support the local economy; and leverage finance and investment operations to enhance the protection of the environment across Palestine.

Sustainability Governance at BOP

After re-conceptualizing our sustainability management framework, we upgraded our sustainability governance framework to reflect this shift. Specifically, we incorporated the following key changes:

Board-Level Sustainability Committee

We established a sustainability committee at the board level, which is responsible for overseeing the sustainability management function in the bank, monitoring sustainability performance, and approving sustainability strategies. It is also responsible for providing the bank with effective and timely feedback on its sustainability strategy and operations. This committee will also act as a vehicle for ensuring the proper discussion of sustainability affairs at the highest governance level in the bank.

Sustainable Banking Department

We revamped our CSR department into a full-fledged Sustainable Banking Department in 2021. The dedicated department is responsible for overseeing BOP's day-to-day sustainability activities, developing and implementing processes to monitor and improve our ESG performance across operational departments, including rallying the support of BOP's top management and board.

These changes guided the bank to develop and adopt its first sustainability strategy and issue its first sustainability report (this report). The new strategy conceptualizes the mission of the entire bank in terms of the bank's triple bottom line: economic, environmental, and social performance.

Strategy Formulation

We institutionalized a system to formulate and control our sustainability strategy, which involves conducting regular analysis of related performance areas and deploying effective mechanisms to set our ESG goals and objectives. The ultimate purpose of this new system is to optimize our shared value creation process.

Managing Risks

The Risk Management Policy of BOP is under the authority of the BOD, which is responsible for approving the bank's risk appetite and strategy and formally reviewing it annually or more often if required. The BOD delegates specific oversight of all risk management activities in the bank to the Board Risk Committee (BRC), however, ultimate responsibility for the bank's effective risk management and adherence to this policy rests with the BOD. The board formally reviews the Risk Management Framework and the bank's risk profile at least annually or as internal or external events may dictate.

As a commercial bank, we are exposed to a range of risks that can negatively impact our business, reputation, and ability to create value for our stakeholders. We, therefore, seek to identify, assess, and manage these risks proactively and responsibly. Credit risk is the first issue we are exposed to and can result from defaults on loans or deterioration in our borrowers' financial conditions. We can also experience loss from our day-to-day operations from errors, omissions, fraud, or other adverse events. These operational risks can also arise from non-compliance with laws and regulations. These risks can have a material impact on our business. We, therefore, seek to mitigate these risks through a combination of risk management practices and good governance. Moreover, political challenges often create hurdles for bank operations outside normal business risk. Despite these challenges, the bank remains resilient, agile, and adaptive to various political and operational challenges. BOP's possession of the oldest and largest banking network in Palestine has always enabled it to manage its operations and their continuity even under these exceptional circumstances.

Compliance

BOP adopts stringent risk management and governance structures, as stated above. Moreover, the bank manages an effective compliance department that follows the instructions of the Palestinian Monetary Authority. The purpose of our compliance department is to control the bank's performance, ensure that it follows regulations, and continuously monitor and report on the compliance of its various operations. This improves the bank's ability to identify potential problems and take prompt actions to address them. More information about our compliance and risk management frameworks are included in the next section on Governance.

Stakeholder Engagement

To ensure the alignment of our sustainable banking efforts with the needs and expectations of our stakeholders, we initiate regular engagement. This includes dialogue with shareholders, customers, employees, regulators, and civil society. We also seek to engage with our stakeholders through our website and social media channels, as discussed in the next section. In 2021, we reviewed and improved our mechanisms of stakeholder engagement regularly and will continue to do so in the future. Our stakeholder engagement mechanisms are discussed in more detail in the next section of the report.

Sustainability Reporting

We consider reporting to form a crucial part of our approach to sustainability as it allows us to engage with and stay accountable to our different stakeholders. We disclose our progress in meeting together with our overall business goals and targets in our annual report. We also publish a separate sustainability report (this report) that provides more detailed information on our sustainable banking practices.

Our Sustainability Strategy

In line with our commitment to sustainable banking practices, we have adopted a holistic approach to managing our social, economic, and environmental impacts. This approach is based on the following three pillars: integrated governance (our sustainability committee is chaired by a member of the board); sustainable business strategy (embedding ESG risks and targets into our business strategy); and sustainable business operations (promoting energy efficient solutions and re-organizing our services from the perspective of enhancing financial inclusion).

Our sustainability strategy is organized around the following five pillars:

Sustainability Governance within the Bank

Continuing to solidify ESG governance across the bank through instating a comprehensive sustainability strategy, integrating ESG KPIs into our business strategy, and digitalizing ESG data collection, among other key milestones.

Creating Shared Value

We aim to create shared value through the prioritization of green and inclusive growth as part and parcel of our business objectives and strategy, products and services, and approach to doing business. We are therefore committed to increasing access to banking services and products for all segments of society, including low-income individuals, women, people with disabilities, and small businesses. In parallel, we plan on continuing to launch products and services that facilitate more environmentally sustainable growth within the Palestinian economy. This includes reducing our ecological footprint by adopting energy-efficient technologies and practices, promoting the use of renewable energy, and financing projects that contribute to sustainable development. These include providing financing for renewable energy projects, green buildings, and environmental protection and supporting small businesses and women-owned enterprises.

Environmental Stewardship and Responsibility

In addition to facilitating green growth with our own products and services, we plan on enhancing our own responsibility by mitigating the impacts of our own operations. We strive to build an environmental monitoring and reporting system and to adopt international best practices and guidelines of relevance for managing environmental risks in banking operations.

Human Resource Management

Ensuring the continuous growth and development of our workforce; creating clear pathways for growth and development; and ensuring greater gender diversity and inclusion are our top priorities for the coming phase.

Social Investments

We aim to launch a focused social investment strategy that targets three priority sectors, while maintaining our essential engagement in crisis responses, health care and well-being, and entrepreneurship.

Sustainability Goals

To actualize our Sustainability Strategy, we have identified a set of goals and targets based on the identified pillars that we want to achieve by 2025. These include:

Table 2: Sustainability Goals

Area	Targets
ESG Governance	<ul style="list-style-type: none"> - Introduce a dedicated E&S Officer by 2022. - Include ESG KPIs in BOP's upcoming Strategic Plan (informed by a planning and strategizing workshop with our most senior executives) by 2022. - Digitize sustainability data by 2025.
Environmental Responsibility	<ul style="list-style-type: none"> - Introduce the required reporting systems and mechanisms to track energy, fuel, and water consumption rates by 2023. - Set and achieve resource use reduction targets for the year 2024, including: <ul style="list-style-type: none"> - 30% decrease in carbon emissions - 30% increase in reliance on renewable energy sources - 25% increase in water efficiency - 30% decrease in waste generated from operations
Product Responsibility	<ul style="list-style-type: none"> - Pilot and mainstream a supplier environmental & social (E&S) screening mechanism by 2024. - Pilot and mainstream a client/borrower E&S due diligence and screening mechanism by 2024. - Introduce at least 2 new shared value product / service streams by 2023.
Human Resource Management	<ul style="list-style-type: none"> - Conduct a comprehensive gender audit by 2023. - Introduce tailored women's leadership career advancement program by 2024.
Social Investments	<ul style="list-style-type: none"> - Launch a focused social investment strategy that focuses on three priority sectors by 2022.

Stakeholders

The term “stakeholder” can refer to any person or organization that has the potential to impact or be affected by our actions or is interested in our operation. They include but are not limited to customers, shareholders, regulatory authorities, workers, suppliers, and the communities in which we operate. At BOP, we believe it is our responsibility to address their needs and concerns as well as make every effort to include their interests in our decision-making process and management strategy. We aspire to develop positive relationships with our stakeholders based on trust, respect, and mutual understanding. We believe this is the best way to create long-term value for our shareholders while promoting the sustainable development of our business and the communities where we do business. Our commitment to addressing stakeholder concerns stems from our conviction that incorporating our stakeholders into our ESG management approach will positively impact our bottom line.

Engaging our Stakeholders

In 2021, we revised our stakeholder engagement strategies with different groups, considering their interests in our decision-making process, and communicating with them throughout the process. In addition, we developed a new mechanism for consulting with our stakeholders to identify our material topics and build our sustainability management approach. Our drive to involve our stakeholders also impacted our decision to communicate our sustainability performance to the broader public in accordance with GRI standards.

As illustrated in Figure 2, we implement three methods to involve our stakeholders in our sustainability decisions. First, we have established channels to engage with them regularly. Second, we have developed and implemented a consultation process to include them in determining our material topics and management approach. Last, we adopted a new strategy to report our performance to the broader public in accordance with GRI Sustainability Reporting Standards.

Stakeholder Engagement Mechanisms and Priorities

The following table summarizes the mechanisms and the frequency of engagement with each of our stakeholder groups. It also identifies gaps and lays out how we intend to augment these methods in the future.

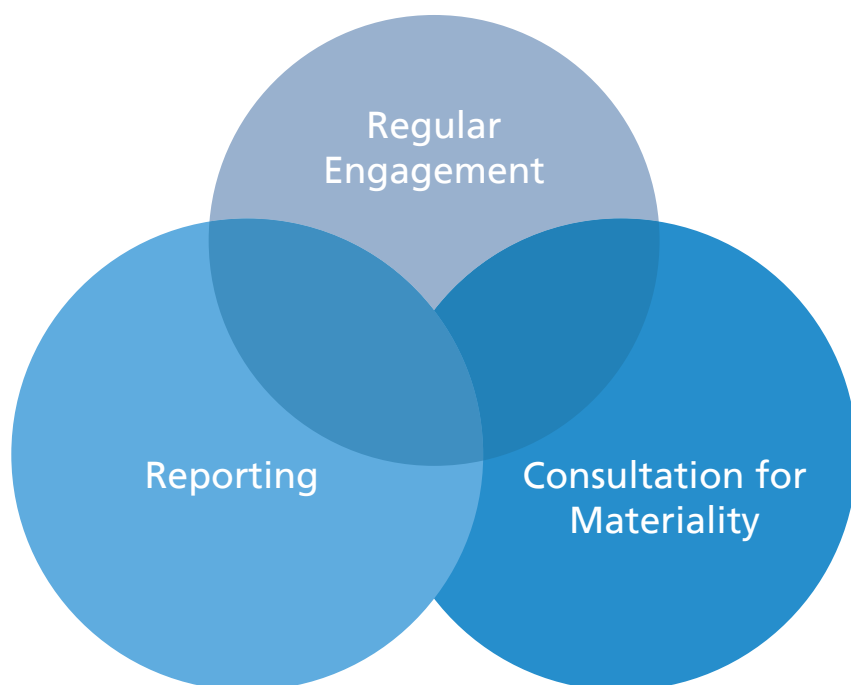


Figure 2: Our Stakeholder Engagement Approach

Table 3: Stakeholder Engagement Mechanisms & Priorities

Stakeholder Group	Modes of Engagement	Topics of Engagement	Frequency of Engagement	Key Insights & Needs	Future Plans	
Shareholders	Earnings releases	Financial results	Quarterly	Continue to mainstream ESG within the organization	Instate a business strategy that mainstreams best ESG principles	
	Phone calls	Updates on the bank and its operations	Per need during crisis or major developments	Continue to mitigate risks and manage growth while affording close attention to the ever- changing social, economic, and political realities in Palestine		
	Physical visits	Financial Results Management decisions	Annual			
	Annual General Meeting (AGM)					
Clients	Social media channels	Information on services	Daily, weekly, monthly, quarterly and/or as needed.	Enhance communication channels and the overall customer service experience.	Build a stronger presence on social media including LinkedIn and Facebook	
	Press releases	Business news				
	Ad campaigns	New products and services				
	Email circulars	New developments				Conduct more formal customer surveys to continuously capture feedback and enhance performance
	Business WhatsApp					
	Complaints channels	Updates on services				

Stakeholder Group	Modes of Engagement	Topics of Engagement	Frequency of Engagement	Key Insights & Needs	Future Plans
Employees	Monthly bulletin	News about the BOP family	Daily, weekly, monthly, quarterly, annually and/or as needed.	<p>Ensure more clarity around career paths and salary scales</p> <p>Measure satisfaction annually</p> <p>Resume recreational events and health interventions which were interrupted by COVID-19, especially the distribution of healthy food</p>	<p>Introduce an innovation hub for employees</p> <p>Establish a leadership academy</p> <p>Revisit maternity leave and flexible work schemes</p> <p>Allow for rotation between departments</p> <p>Enhance the overall office environment</p>
	365 portal Yammer	News			
	Employee Facebook	Social and BOP-related news			
	WhatsApp groups	Emergencies			
	Email circulars	Management decisions; letters from the Chairman and CEO			
	Videos, face-to-face meetings, recreational events	Team building and continuous open communication			
	Employee satisfaction surveys	Measurement of satisfaction and capture of new ideas for enhancement			
Civil society organizations (CSOs); Local and surrounding communities	Meetings	<p>Social investment programs</p> <p>Emergency needs and crises</p>	<p>Ad hoc for new partners</p> <p>Systematic annual reviews with existing partners as governed by agreements</p>	<p>A more focused agenda driven by the newly instated sustainability strategy</p> <p>A more proactive approach to engagement</p>	<p>Zoom in on the financial inclusion of marginalized groups</p> <p>Further the creation of shared value</p>
	Calls				
	Partnerships with CSOs				
	Outreach from community				

Stakeholder Group	Modes of Engagement	Topics of Engagement	Frequency of Engagement	Key Insights & Needs	Future Plans
Palestinians in the diaspora	Emails	Updates on available services	Quarterly, annually and/or as needed		
		Updates on bank news			
	Circulars and letters	Updates on financial performance		Ensure more regular and consistent communication with members of the diaspora	Utilize of technology better to actively engage members of the diaspora
	Earnings releases	Solutions for issues and the provision of advice		Gather deeper business insights and provide new products accordingly	Initiate creative partnerships on sustainability, ESG and the transfer of know-how
	Phone calls				
	Roadshows; sponsorship of diaspora events and conventions	Networking visibility		Enhance the involvement of members of the diaspora in social investment programs	Develop new products for the diaspora
	Partnerships	Community support			

Stakeholder Group	Modes of Engagement	Topics of Engagement	Frequency of Engagement	Key Insights & Needs	Future Plans
Business Community	<p>Memberships in and engagement with business networks and associations</p> <p>Sponsoring events and conferences with the business community</p> <p>Thought leadership with local and international partners</p>	<p>Dialogue creation on issues impacting the Palestinian business sector</p> <p>Thought leadership to encourage and influence banking players to adopt international best practices</p>	Annual events and needs-based engagements	Review relationships and dialogue priorities based on the newly instated sustainability strategy	Lead discussions with peers from the banking sector around the adoption and integration of sustainability within the banking sector
Suppliers	Face-to-face	<p>General feedback and sustainability practices</p> <p>Publication of bids and award of services</p>	As needed	The need to align procurement practices with ESG standards	Gradually adopt E&S supplier screening mechanisms

Stakeholder Group	Modes of Engagement	Topics of Engagement	Frequency of Engagement	Key Insights & Needs	Future Plans
Government and regulators	Government	Lobbying to ensure policy issues affecting banks are friendly	Daily, weekly, monthly, quarterly, annually and/or as needed	Continue to influence other banks and financial players	Proactively act as a thought leader to influence the government and regulators towards furthering environmental, climate change and key material sustainability topics
	Regulators	Advocacy to change policies			
	Government agencies	Compliance with regulations		Continue to ensure the sector's alignment with the Sustainable Development Goals (SDGs)	
	International Agencies and Countries	Improvement of conditions and participation in economic initiatives		Continue to ensure a proactive presence	
		Establishment of relationships and partnerships to sustain BOP's contribution to economic development			

Memberships and Associations

We continuously engage industry peers through our membership in and engagement with multiple associations. We are a part of the Global Alliance for Banking on Values (GABV), a network of banks that are committed to delivering sustainable development. This movement is composed of banks that are dedicated to ensuring that their activities contribute to sustainable development. BOP was the first Arab bank to join this alliance.

We are signatories of Stakeholder Capitalism Charter of the World Economic Forum, we are also a member of the Middle East Investor Relations Association (MEIRA), the World Economic Forum, the Global Banking Alliance for Women, and the United Nations Global Compact (UNGC).

Our memberships in these networks allow us to participate in global dialogues about the role of banks in sustainable development. They also provide us with the opportunity to learn from the best practices of other international banks.



**Global Alliance for
Banking on Values**



**middle east
investor relations
association**



Materiality

As mandated by GRI standards, our material topics are those judged necessary for correctly representing our economic, environmental, and social impacts and those that affect our stakeholders' perceptions of our performance or can influence their related decisions. We define "impact" in this case as the effect that our activities may have, whether positive or negative, on the economy, the environment, society, and the potential of our operations for sustainable development. Accordingly, we regard a topic as material if it ranks highly in terms of economic, environmental, or social impact or significantly influences our stakeholders' sustainability decisions and perceptions.

Identifying material topics

We use a variety of methods to identify material topics, including:

-  analyzing the ESG risks and opportunities associated with our operations. This involves assessing how our activities could affect the economy, the environment, and society and the likelihood that such potential effects would occur;
-  reviewing our performance against global and sector-specific best practices. This helps us identify topics that may significantly impact our stakeholders' perceptions of our performance;
-  consulting with key stakeholders to identify issues that are important to them;
-  monitoring major events and developments that could impact our stakeholders or our business. This allows us to stay informed of potential material topics as they emerge, which played an instrumental role in guiding us to respond to the effects of the COVID-19 pandemic.

Our Material Topics

We identified several material topics through the methods identified above. These are summarized in the Materiality Matrix illustrated in the diagram below. The Materiality Matrix is a tool that we use to set the relative importance of each topic. We developed it by assigning a score to each topic based on the perceived magnitude of its potential impact from our perspective and that of our stakeholders. The scores are then weighted to prioritize topics with the highest scores, as illustrated in the figure. This approach allows us to focus our attention on the most important topics while also considering the likelihood that they will have an impact.

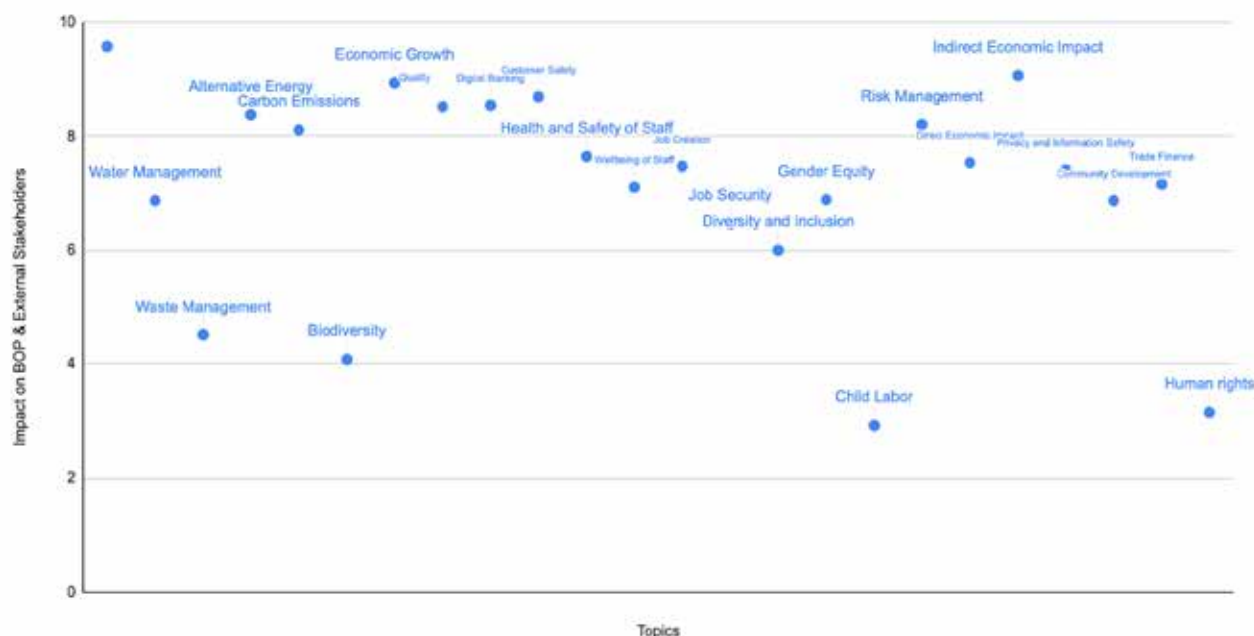


Figure 3: 2021 Materiality Matrix

Moreover, we follow the precautionary approach outlined in the Rio Declaration. We are therefore committed to implementing cost-effective steps to avoid environmental degradation when there is a potential danger of harm to the environment, even if we lack information on the nature or degree of that harm.

Governing Growth & Success

Effective sustainability management requires committed leadership, clear direction, the formulation of robust sustainability strategies across the entire bank, adoption of effective sustainability goals, enforcement of good ESG compliance and reporting processes, cultivation of excellent relations with external stakeholders, and assurance of ESG accountability wherever needed. Satisfying these requirements would not be possible without a solid corporate governance system. Good corporate governance provides the framework within which we operate to decide upon the best interests of the bank, our stakeholders, and society. The upcoming section provides an overview of governance at BOP.

Overview

We deploy the notion of “corporate governance” as a set of policies, systems, and processes for directing and controlling our business, including our relationships with our stakeholders. The main functions of our governance system are to:

- ensure that our business is conducted in a manner that protects and enhances shareholder value;
- promote the sustainable growth of the bank;

- 🍃 foster transparency, accountability, and public trust;
- 🍃 enable the bank to focus on its strategic objectives and business goals;
- 🍃 provide an oversight mechanism for how we operate; and
- 🍃 help us manage risk effectively.

To exercise our responsibilities as a sustainable and responsible business, we have implemented an effective governance system designed to direct the bank towards yielding the best financial results possible while meeting our sustainability objectives and commitments. This system is deployed over four tiers, as illustrated in the Figure 4.

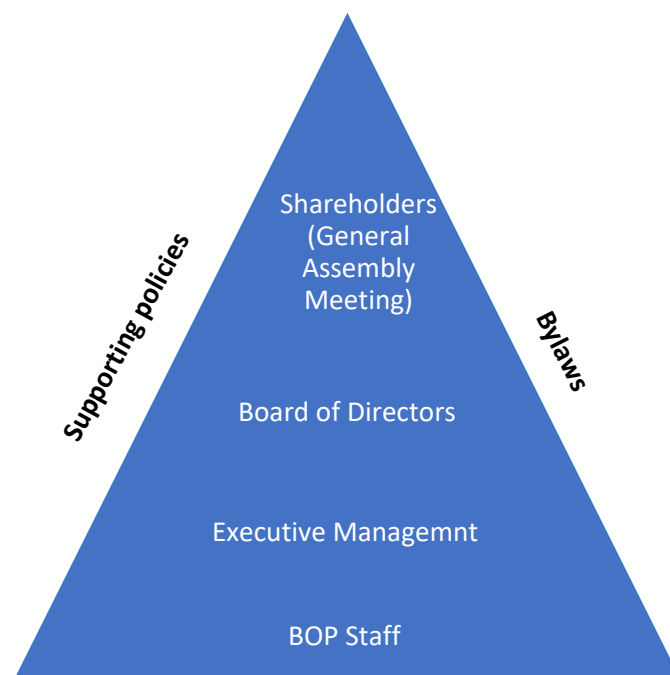


Figure 4: BOP Governance System

Tier 1 – Our shareholders are the ultimate decision-makers in our company. Accordingly, they reside at the highest level of our governance system. Our Annual General Meeting (AGM) is the institutional set-up that brings them together to articulate their concerns and vote on the issues at hand. The AGM is convened once a year for the purpose of among other things, electing the Board of Directors (BOD) and approving the annual report, financial statements, and plans for the future.

Tier 2 – Our BOD occupies the second tier of our governance hierarchy. Our board is the institution through which BOP deploys shareholder oversight of the entire bank. It oversees and governs bank strategies and policies, approves all major transactions, and is responsible for ensuring that the bank complies with internal rules and relevant external regulations and applicable laws.

Tier 3 – BOP has recruited able executives to manage the bank's regular operations. At this level, our CEO and Executive Committee (EC) are responsible for ensuring the effective deployment of our day-to-day operations. The EC consists of our senior managers, all reporting to the CEO. The EC also reports to the BOD, but on a less regular basis. Our governance system also includes various committees supporting and advising the BOD, the CEO, and the EC on specific matters.

Tier 4 – BOP staff report through clear lines of responsibility as per our organizational structure to ensure effective operations, transparency and compliance with policies and bylaws. For more detail, please refer to the section "Our People".

Our corporate bylaws are formalized in our "Code of Corporate Governance," which acts as a constitution for our company and governs how our BOD is elected, operates, and is maintained. It also sets regulations to ensure the fairness, accountability, and transparency of the board's actions and how it manages its oversight function (please refer to the next section for additional details). We have also developed and adopted multiple policies and procedures to align our different governance instruments and ensure they work effectively towards BOP's strategic goals.

Our Charter: Code of Corporate Governance

BOP's "Code of Corporate Governance" provides bylaws that lay out the bank's key governance policies. It is reviewed and updated at least once every three years by the BOD, with the most recent update in December 2020. Key policy instruments governed by our bylaws include the composition, election, roles, and responsibilities of the BOD; committees and meeting frequencies for the BOD; the Annual General Meeting; risk management; internal controls; and disclosure and transparency mechanism.

In adopting this code, BOP confirms its commitment to demonstrably promote and implements good governance throughout the bank's departments and activities. To encourage the trust of our stakeholders, our code not only satisfies the regulatory requirements of the Palestine Capital Markets Authority (PCMA) and the Palestinian Monetary Authority (PMA), but it also incorporates globally accepted corporate governance ideas and practices.

Core Governance Principles

BOP's corporate governance framework is broadly based on the following principles, which form part of our bylaws.

Accountability

Our bylaws were designed to ensure accountability of the BOD and senior management to our shareholders. The board is responsible for guiding BOP to achieve its goals and is accountable to the shareholders for this guidance. Likewise, our executive management team is accountable to the board, and by extension, the shareholders, for BOP's day-to-day performance. Given that accountability is a material topic for our governance function, our bylaws include articles to strengthen the sense of accountability throughout the bank, including but not limited to:

- ✍ requiring the board to hold at least four regular meetings each year (with additional special meetings as needed) and to document the proceedings of these meetings;
- ✍ regulating the communication between the board and the general assembly;
- ✍ requiring the board to establish committees to oversee the audit and governance functions;
- ✍ defining a code of conduct for the BOD and the executive officers, setting out the standards by which they are expected to perform their duties while avoiding conflict of interest.

Fairness & Equity

BOP obligates itself to protect shareholder rights and ensure the equitable treatment of all shareholders, including minority shareholders. Our bylaws ensure that all shareholders are granted effective redress for any potential violation of their rights through the board.

Transparency

BOP is committed to ensuring timely and accurate disclosure on all material matters, including the bank's financial results, market performance, ownership, and, recently, ESG performance. BOP strives to disclose these issues in a manner that is easily accessible to all interested parties through mass distribution lists.

Responsibility

BOP recognizes the rights of other stakeholders as established by laws and regulations and encourages cooperation between the bank and its stakeholders in creating a sustainable and financially rewarding enterprise.

Respect for Human Rights

BOP obligates itself to respect human rights as a core value and adopts a zero-tolerance strategy toward any form of human rights violation.

Integrity & Ethical Behavior

BOP is committed to the highest ethical conduct and integrity standards in all its dealings, including with shareholders, employees, customers, suppliers, and other business partners.

Ownership & Legal Form

BOP is a public joint-stock company incorporated in Palestine. BOP's stocks are listed on the Palestine Stock Exchange and are subject to its listing requirements, which are based, in turn, on international best practices. The bank has issued 217,433,527 shares with a par value of USD 1.00, of which 79.4% were freely tradable as of December 31, 2021. The per-share closing price on December 31, 2021, was USD 2.00.

In 2021, there were 4,708 stockholders, up from 4,660 in 2020. BOP's largest shareholder, Al Muhalab Kuwaiti Real-estate Company, held 15,538,907 shares at the start of 2021, up from 15,181,997 shares a year earlier. However, despite increasing its BOP holdings between 2020 and 2021, Al Muhalab's ownership percentage decreased from 7.3% in 2020 to 7.15% in 2021. FISEA, the French Development Agency's (AFD) Investment Fund, operated by Proparco, acquired 3.14% of BOP's shares in 2021 and is now regarded as a strategic shareholder in BOP.

Local entities hold approximately 64.88% of BOP's shares compared to 35.12 % owned by entities outside Palestine. Similarly, 61.41% of the bank's shares are held by individuals, compared to 38.59% by institutions.

BOP stock ownership is, therefore, spread across many small shareholdings. The top five shareholders together hold only 22.62% of bank shares. No shareholder other than Al Muhalab has more than 5% of BOP's stock. This diffusion of ownership rights helps protect the bank from undue influence and ensures that its decisions are made in the best interest of all shareholders. Accordingly, the BOP ownership structure supports the bank's mission to serve all shareholders equally. Likewise, no external entity has direct or indirect control over the company, and no supplier or major customer locally or abroad constitutes 10% or more of BOP's total purchases or sales. BOP is, therefore, organized to pursue only the best interest of its shareholders, including the holders of the smallest shares.

Moreover, BOP's bylaws ensure that all shareholders have the right to provide input as to governance and are entitled to the earned profits of the bank. In conformance with the stipulations of BOP's Articles of Association, the bank has institutionalized a system of registering shareholder complaints and ensuring that they are discussed and solved effectively. No issues were raised or referred to by any of the shareholders during 2021.

The Board of Directors











Our board is headed by a non-executive chairman, elected by the members of the BOD. The bylaws require the board to meet at least four times a year to discuss strategy, performance, risks, compliance, sustainability, and other matters that the board deems essential. In 2021, nine BOD meetings were held.












The chairman leads the board and is responsible for its effectiveness, assisted in this task by a non-executive director who acts as the board's deputy chairman. The deputy chairman is also elected by the BOD.

The board organizes itself into several standing committees, discussed in more detail below. BOP's bylaws regulate the roles and responsibilities of these committees to ensure that they play their role effectively. The board also has the right to form ad hoc committees when needed. Managing the bank's day-to-day activities is the responsibility of the executive team, headed by BOP's CEO.

Responsibilities of the Board







The responsibilities of the BOD are to:

-  ensure the development and execution of business strategies aligned with BOP's purpose and mission;
-  review, approve, and monitor the bank's long-term strategic objectives and business plans set by executive management;
-  monitor the overall performance of the bank and its progress towards its strategic objectives;
-  ensure the bank has adequate resources to pursue its business strategies;
-  assess the major risks that BOP faces and the actions taken by the executive management to monitor, control, and mitigate these risks;
-  set the level of 'risk appetite' for the bank and ensure the prevalence of a risk management culture throughout the organization;
-  oversee the integrity of the financial statements and ensure compliance with legal and regulatory requirements;
-  ensure the appointment of an able and independent external auditor;
-  establish an able and independent internal audit function;
-  review and approve major business transactions, including significant credit decisions, capital allocations, and major expenditures, in line with the approved policies;

-  oversee the investment and financing activities of the bank and its human resource policies;
-  select, develop, and evaluate potential candidates for senior management positions and approve the succession plan of senior executive officers;
-  oversee the governance system of the bank and ensure its effectiveness and compliance with approved policies and provisions;
-  nominate candidates for the position of director to the shareholders;
-  determine remuneration policies for the BOD and senior executives;
-  evaluate the overall performance and effectiveness of the board and its members and take corrective actions as needed;
-  ensure compliance with laws, regulations, codes of conduct, and ethical standards;
-  protect the bank's reputation and safeguard its assets;
-  maintain relations with shareholders, strive to protect their rights, and ensure that shareholder meetings follow applicable laws and regulations;
-  ensure stakeholder interests are considered, and the bank conducts its business in a socially responsible manner to the maximum extent practical; and
-  oversee the work of the Anti-Money Laundering (AML) Department through the Audit Committee

Responsibilities of the Chairman

The responsibilities of the chairman are to:

-  lead the board and its committees in carrying out their duties in an effective manner;
-  ensure that the board has access to accurate, timely, and relevant information;
-  encourage constructive shareholder engagement;
-  oversee the evaluation of the BOD's performance and that of its members at least once a year;
-  determine the agenda of the board's meetings, preside over these meetings, and ensure that the minutes are properly documented; and
-  guide the board in electing a deputy chairman.

Responsibilities of the Deputy Chairman

The responsibilities of the deputy chairman are to:

✍ assist the chairman in leading the board and its committees; and

✍ fill in for the chairman in case of absence.

Members of the Board

Our Code of Corporate Governance specifies that the bank shall be governed by a BOD composed of 7 to 13 members. It also sets out the mechanism for electing them, defines their roles and responsibilities, and identifies the mechanisms by which they shall report to and communicate with the shareholders.

Today, the BOD of the Bank of Palestine is composed of nine members, including three women. BOP is committed to achieving gender equality at all levels of management and aspires to improve the rate of women's participation on the board. Following is a list of our board members and their affiliations.

- 1. Mr. Hashim Shawa:** Chairman
- 2. Mr. Maher Farah:** Deputy Chairman
- 3. Mrs. Lana Abu Hijleh:** Member | Small Shareholder Representative
- 4. Prof. Dr. Hani Nigim:** Member
- 5. Mr. Abdullah Al-Ghanim:** Member | Representative of Al-Muhalab Real Estate Company
- 6. Mr. Tarek Al Aggad:** Member | Representative of the Arab Palestinian Investment Company (APIC)
- 7. Dr. Tafeeda Jarbawi:** Member
- 8. Mrs. Maha Awad:** Member
- 9. Mr. Eric Shehadeh:** Member

Our board is composed of highly qualified and experienced professionals from various fields. We believe this diversity enriches our board's deliberations and helps us better serve our stakeholders. Likewise, 33% of our board members are women, reflecting our commitment to gender equality. Finally, eight of our board members are Palestinian, underscoring our commitment to providing our people with leadership positions in our business. Members from the region and the diaspora provide diversity of experience and provide networking opportunities with regional banks, investors, and development organizations.

Board Committees

Our board is organized into the following five committees:

1. **Audit Committee**
2. **Risk and Compliance Committee**
3. **The Executive Committee**
4. **The Human Resources and Governance Committee**
5. **The Sustainability Committee**

These committees play an essential role in overseeing management performance, ensuring that business is conducted responsibly and ethically, and enabling us to make better and more focused decisions and operate more efficiently.

The Audit Committee

Committee members: Mrs. Lana Abu Hijleh – Chairwoman; Mrs. Maha Awad – Member; Mr. Eric Shehadeh – Member

The purpose of the audit committee is to oversee the financial control function in the bank, govern the work of the internal and external auditors, and ensure the preparation of accurate and transparent financial statements for the bank following applicable standards and regulations.

The Risk and Compliance Committee

Committee members: Mr. Eric Shehadeh – Chairman; Mrs. Lana Abu Hijleh – Member; Mr. Hani Nigim – Member

The purpose of the risk committee is to govern the processes for managing risk throughout the bank to ensure that the bank has a practical risk management framework in place. The committee also oversees the bank's compliance with all applicable laws and regulations, including internal policies, and ensures that the bank has an effective compliance management system.

The Executive Committee

Committee members: Mr. Hashim Shawa – Chairman; Mr. Maher Farah – Member; Mr. Abdullah Al-Ghanim – Member; Mr. Tarek Al-Aggad – Member

The EC is responsible for overseeing bank operations to guarantee business continuity and the attainment of the bank's strategic goals. It exerts direct oversight over the primary duties and responsibilities of asset and liability management; budgets; capital sufficiency; mergers and acquisitions; foreign exchanges; and decisions to enter new markets.

The Human Resources & Governance Committee

Committee members: Dr. Hani Nigim – Chairman; Dr. Tafeeda Jarbawi – Member; Mr. Eric Shehadeh – Member

The purpose of the human resources committee is to oversee the bank's human resources policies and practices and to ensure that these are aligned with the bank's business strategy. The committee is also responsible for ensuring that the bank has an effective system in place for succession planning and management development. The committee is also responsible for checks and balances within the bank, including the limits to management powers at different levels. Moreover, the committee strives to ensure that top executives and board members avoid conflict of interest.

The Sustainability Committee

Committee members: Dr. Tafeeda -Jarbawi – Chairwoman; Mr. Hashim Shawa – Member; Mrs. Lana Abu Hijleh – Member

BOP established this committee in 2021 to develop and oversee the implementation of the sustainability strategy. The committee is responsible for setting goals and targets, monitoring progress, and reporting to the board on a regular basis. It is also responsible for ensuring that staff are adequately educated on sustainability management topics relevant to their work and for steering our organizational culture in a more sustainable direction.

Stocks Owned by Directors

The members of the BOD own roughly 4–5% of total shares, the largest portion of which belongs to Mr. Hashim Shawa, the Chairman of the Board. The table below lists the shares owned by each board member.

Table 4: Stock Ownership – BOD Members, 2020–2021

Member of the Board	Number of Shares			Percentage Ownership		
	2019	2020	2021	2019	2020	2021
Hashim Shawa	7,644,527	7,797,417	8,625,391	3.74%	3.75%	3.97%
Maher J. Farah	954,537	723,627	630,863	0.47%	0.35%	0.29%
Hani H. M. Nigim	221,340	225,766	228,023	0.10%	0.11%	0.10%
Tarek Aggad	25,801	26,317	26,580	0.01%	0.01%	0.01%
Lana Jamal Abu Hijleh	28,372	28,939	59,228	0.01%	0.01%	0.03%
Abdullah Al-Ghanim	24,182	24,665	27,794	0.01%	0.01%	0.01%
Maha Subhi Awad	50,000	72,975	123,704	0.02%	0.04%	0.06%
Tafeeda Jarbawi	150,000	153,000	254,530	0.07%	0.07%	0.12%
Emad Eric Shehadeh	--	20,218	556,175	--	0.01%	0.26%
Total	9,098,759	9,072,924	10,532,288	4.4%	4.4%	4.9%

Likewise, some first-degree relatives of BOD members have maintained shares in the bank. The table below lists these shares, which amounted to roughly 8% during 2019 and 2020. In total, BOD members and their first-degree relatives own roughly 12–13% of total shares.

Table 5: Stock Ownership – First-degree Relatives of BOD Members, 2020–2021

Name of First Degree Relative	Number of Shares			Percentage Ownership		
	2019	2020	2021	2019	2020	2021
Huda Hani Shawa	5,770,916	5,886,334	5,945,197	2.82%	2.83%	2.74%
Dina Hani Shawa	2,258,548	2,258,548	2,258,548	1.10%	1.09%	1.04%
Linda Patrick Shawa	1,516,311	1,546,637	1,565,103	0.74%	0.74%	0.72%
Bernardita Vigano Shawa	152,296	155,341	156,894	0.07%	0.07%	0.07%
Nabeel Hani Qaddoumi	3,232,105	3,296,747	3,329,714	1.58%	1.59%	1.53%
Yasmeen Nabil Qaddoumi	1,512,407	1,542,655	1,558,081	0.74%	0.74%	0.72%
Laila Nabil Qaddoumi	1,522,625	1,553,077	1,568,607	0.74%	0.75%	0.72%
Omar Baheig	96,384	143,481	101,434	0.05%	0.07%	0.05%
Genevieve Boimond	201,270	455,295	559,847	0.10%	0.22%	0.26%
Total	16,262,862	16,838,115	17,043,425	7.96%	8.10%	7.84%

Lastly, the shares owned by BOP executives were less than 1% in total.

Transparency & Accountability within BOP

At the Board level, BOP bylaws require board members to act in good faith, with due care, and in the best interest of the company and its shareholders—not in the interests of any particular shareholder—based on all relevant information. At the same time, every director must uphold the bylaws fully.







The board's composition (competencies, skills, and appropriate mix) is such that it is adequate for oversight of duties, the development of the company's direction and strategy, and the company's equity vision. Each board member must have the experience, knowledge, qualifications, expertise, and integrity necessary to effectively discharge board duties and enhance the board's ability to serve the long-term interests of the company and its shareholders.

To ensure the impartiality of decisions and maintain the balance of interests among various groups of shareholders, the Code of Governance requires at least 25% of the members to be independent directors. Furthermore, to ensure effectiveness and the ability of the directors to discharge their duties properly, the code also requires the board to meet according to a fixed schedule, no less than six times a year.

Supporting Policies & Procedures

In addition to the bylaws, BOP also adopts several policies and procedures that guide management on how to implement bylaw provisions and follow good governance best practices. The following is a non-exhaustive list of these policies and procedures:

-  **nomination and Remuneration Policy:** this policy sets out the criteria and processes for nominating and remunerating directors, as well as the procedure for setting the compensation of the CEO and other members of senior management.
-  **disclosure Policy:** this policy sets out BOP's commitment to disclose accurate and timely information to shareholders and potential investors and treat all shareholders fairly and equitably.

-  evaluate the overall performance and effectiveness of the board and its members and take corrective actions as needed;
-  ensure compliance with laws, regulations, codes of conduct, and ethical standards;
-  protect the bank's reputation and safeguard its assets;
-  maintain relations with shareholders, strive to protect their rights, and ensure that shareholder meetings follow applicable laws and regulations;
-  ensure stakeholder interests are considered, and the bank conducts its business in a socially responsible manner to the maximum extent practical; and
-  oversee the work of the Anti-Money Laundering (AML) Department through the Audit Committee.

Management Control Practices

BOP places great importance on its management control framework to ensure that its operations are conducted soundly. Its BOD is also responsible for establishing effective internal control systems, which include developing a comprehensive risk management system and adopting control measures such as:

- ✍ establishing the Audit Committee to control the executive functions of the company;
- ✍ establishing the Internal Audit and Inspection Department that reports to the board on the effectiveness of the company's internal controls;
- ✍ establishing an active compliance department to ensure adherence to all applicable laws and internal codes and policies; and
- ✍ engaging a publicly recognized and licensed auditing firm, which is also fully independent of the company, the company's management, and major shareholders.

Addressing Conflicts of Interest

All BOP directors and employees are expected to always act ethically and to acknowledge their adherence to the BOP Code of Ethics. A potential conflict of interest may exist when the company seeks to enter a transaction with a related party. When such a conflict exists, the bylaws require members of the board and the management to disclose information about any potential conflict of interest to the board and to abstain from deliberating and voting on such issues. The bylaws identify the Audit Committee as the entity responsible for managing and resolving any such conflicts and lay out the procedure for doing so.

Unless required to do so by law, no board member or employee is allowed—during his or her membership on the board or afterward—to disclose any information of a confidential nature regarding the business of the company and/or any companies in which it holds a stake, that came to his or her knowledge in the capacity of his or her work for BOP and which he/she knows or should know to be of a confidential nature. A board member is also forbidden from using such confidential information for his or her benefit.

BOP also strives to maintain a high standard of corporate transparency to its shareholders and stakeholders, including timely and accurate information disclosure. BOP's policy is to disclose all material information, including the financial situation, performance, ownership, and the governance structure of the company to its shareholders and the broader public as appropriate.

Moreover, the bank is also committed to publishing a comprehensive annual report that includes a corporate governance section and strives to disclose its corporate governance practices, corporate events calendar, and other material information on its internet site. The Annual Report will be sent to all shareholders at their registered email address with an invitation to attend the Annual General Meeting. These reports will also be available electronically on the website.

Remuneration Policies

The board's HR and Corporate Governance Committee is responsible for overseeing the director remuneration policy for the bank. The remuneration policy is set to attract, motivate, reward, and retain directors of high integrity and superior ability to focus on enhancing and maintaining the long-term shareholder value without jeopardizing a director's independence or encouraging unjustified short-term risk-taking.

Article no. (56) of the bank's bylaw stipulates that 5% of the Banks' annual net income shall be distributed to the members of the Board of Directors. Actual bonuses distributed were 3.57%, 2.54%, and 1.7% of profit for 2020, 2019, 2021 respectively. Following are the details of the Board of Director remuneration for December 31, 2020, 2019, and 2021.

Table 6: Remuneration of BOD Members, 2019–2021 (USD)

	2019	2020	2021
Hashim Hani Shawwa	94,787	80,000	108,659
Hani Hasan Nigim	94,787	80,000	108,659
Maher Jawad Farah	94,787	80,000	108,659
Abdullah Al-Ghanim	94,787	62,222	96,586
Lana Abu Hijleh	94,787	80,000	108,659
Maha Awad	94,787	80,000	108,659
Tariq Aggad	84,255	80,000	84,514
Tafeeda Jarbawi	10,534	80,000	108,659
Erik Shehadeh	-	35,556	108,659
Total	663,511	657,778	941,713

Our remuneration system is based on all board members receiving the same compensation, regardless of age, gender, or nationality. In 2021, the compensation was set at USD 108,659. The difference in pay shown in the table is the result of the difference in the participation of each member. In total, 9 BOD meeting sessions were held in 2021, in addition to committee meetings to carry out the tasks entrusted to the members as stated in the Code of Governance and the bank's internal procedures. However, not all directors were able to attend all sessions, and thus the compensation varied among them.

The average salary and bonuses for executive managers is now based on a KPI metric and is provided based on meeting these KPIs. This measurement system allows fairness and reward to executives who achieve certain KPIs. Executives also enjoy credit facilities but this is done in a way that does not exceed their financial abilities and is governed by a Debt Burden Ratio (DBR) of not more than 50% of salary.

Regulatory Entities & Requirements

From a legal and regulatory perspective, the bank is directly governed by the regulations and frameworks maintained by the Palestine Capital Markets Authority (PCMA) and the Palestinian Monetary Authority (PMA). Thus, BOP is obliged to operate in strict compliance with ATMAML policies per the stipulations of the Palestinian AML and CTF laws. In addition, BOP also adheres to international AML, CTF, and banking recommendations and frameworks such as FATF 40, Basel Guidelines for AML and CTF, Wolfsburg Principles, and implements know your client (KYC) and customer due diligence (CDD) measures.

BOP is also obliged to observe all banking regulations set by the PMA and the general regulations for managing companies listed in the stock market as set by the PCMA, including financial disclosure regulations.

The bank enjoys excellent relationships with the regulatory bodies mentioned, the Palestinian Government in general, most of Palestine's large corporations, and donor organizations operating in Palestine. However, the bank does not have any governmental protection rights, nor does it enjoy any special privilege by law or any other means.

Legal Actions

The number of cases brought against the bank and its subsidiaries amounted to (248) and (206) cases as of December 31, 2021, and 2020, respectively. These cases are within the bank's normal activities. The value of the cases amounted to the equivalent of USD 366,672.69 and USD 846,469.62 as of December 31, 2021, and 2020, respectively. The bank's management and lawyers are of the opinion that the bank will not have any obligations to meet these demands except for what has already been allocated to handle them. None of those legal actions are related to anti-competitive behavior, anti-trust, and monopoly practices.

Auditors

The 2021 financial report and statements are included in Annex 2 and were audited by Ernst & Young.

Economic Impact

At the Bank of Palestine Group (BOPG), we recognize that our long-term success is inextricably linked to the prosperity of the economy in which we operate. As such, we have an active role in promoting sustainable economic development through our business activities and giving back to our communities. Our most felt impact is in the real economy, supporting productive economic activity versus consumerism.

We principally contribute to the economy via our banking services, which are our most important value-creation tools. They create better financial returns for our shareholders while generating substantial economic value for our stakeholders by enabling economic and commercial transactions, supporting small and medium enterprises (SMEs), corporate and retail customers, and supporting economic development.

Like most banks, BOPG engages in standard retail and business banking operations, serving individual customers and business clients of all sizes (micro, small, and medium-sized companies, and large corporations, including Palestine's largest). Our core services include, but are not limited to providing bank accounts, transfers, check-related services, digital banking, and card services.

The banking group also provides different types of credit facilities and trade finance services to Palestinian companies, in addition to tailored loans and electronic payment and transfer services to both businesses and individuals. Our trade financing services help large corporations maintain a healthy trading position inside Palestine and globally. Additionally, our electronic payment systems have facilitated vast trade transactions for small and micro businesses and individuals and were particularly beneficial during the COVID closures.

Overall, our services offer many benefits to the economy. They secure people's savings, maintain the value of these savings, and fund business enterprises to start, grow, and maintain their day-to-day operations. They also promote increased efficiency and transparency of commercial transactions, greater financial inclusion, and a deeper and more sophisticated financial system. Moreover, they reduce costs associated with cash transactions and increase access to financing. These factors combine to stimulate economic activity and growth.

Following the GRI Standards, we categorize the effects of our services as indirect economic impacts, which, as previously stated, we consider essential for economic development and employment generation. Our direct economic impact, albeit less substantial than our indirect economic impact, is nevertheless considerable: we produce substantial income for our suppliers, employees, and shareholders; contribute to the government's budget via our tax payments; and invest in areas where we can have the most impact.

2017–2021: Five Years of Growth

Despite the many challenges imposed by the COVID-19 pandemic, BOPG has continued to expand its client base in 2021 with an 8% increase from 896,592 to 969,064 customers. We proudly continue to be Palestine's largest banking group and are diligently working towards our goal of serving one million customers by 2025.

Table 7: BOPG Customer Growth, 2017–2021

Year	2017	2018	2019	2020	2021
Number of Customers	785,181	744,783	830,845	896,592	969,064

Similarly, BOPG controlled a 31.2% stake of total bank assets in Palestine (BOP accounts for roughly 22.9% while AIB accounts for 8.3%). As indicated in the below table, the group has continuously owned around 30% of all banking assets over the last five years, demonstrating its capacity to protect its leading position against all forms of risks and obstacles, including those presented by the COVID-19 outbreak.

Table 8: Changes in BOPG Assets, 2017–2021 (USD)

Year	2017	2018	2019	2020	2021
Banking Sector	15,472,566,496	15,637,763,079	17,347,170,110	19,235,659,589	20,884,891,756
BOPG	4,884,822,851	4,657,182,978	5,264,944,640	5,809,809,988	6,508,221,806
Our Market Share	31.6%	29.8%	30.4%	30.2%	31.2%

Since 2005, BOP's shares have been listed on the Palestinian Stock Exchange (PEX: BOP). BOP is the largest bank in Palestine and BOPG is one of the largest private companies in the country with a market value representing 9.7% of the PEX. BOPG's paid-up capital and equity value are the largest in the Palestinian banking sector, with USD 217,433,527 and USD 496,099,427, respectively (in 2021). BOP employs 1,745 employees, the largest workforce in the Palestinian banking sector.

Table 9: Changes in BOPG's Equity, Paid-Up Capital & Number of Employees, 2017–2021 (USD)

	2017	2018	2019	2020	2021
Owners' Equity	449,961,687	416,380,548	430,664,193	433,520,671	496,099,429
Paid Up Capital	200,000,000	200,000,000	204,000,000	208,080,000	217,433,527
BOPG Employees	2,239	2,318	2,375	2,447	2,477
BOP Employees	1,705	1,728	1,731	1,749	1,745

Similarly, BOPG deposits (deposits at BOP and AIB) increased by 8.9%, from USD 4.8 billion to USD 5.3 billion, while its credit facilities increased by 5.4%, from USD 3.27 billion to USD 3.45 billion over the past five years. As a result, BOPG currently dominates both sectors, with market shares of 32.12% for deposits (BOP accounts for 23.52% while AIB accounts for 8.6%) and 33.44% for credit (BOP accounts for 23.64% while AIB accounts for 9.8%), respectively.

Table 10: Changes in BOPG Deposits & Credit Facilities, 2017–2021 (in USD)^I

	2017	2018	2020	2019	2021
Deposits: Sector Total	11.97	12.23	13.38	15.14	16.52
Deposits: Our Group	3.77	3.74	4.12	4.83	5.31
Our Market Share (Deposits)	31.5%	30.5%	30.7%	31.9%	32.1%
Credit Facilities: Sector Total	8.03	8.44	9.04	10.08	10.33
Credit Facilities: Our Group	2.55	2.78	2.98	3.27	3.45
Our Market Share (Credit)	31.8%	33.0%	33.0%	32.4%	33.4%

Over the previous decade, BOPG's exceptional success has allowed it to retain strong profitability for its stockholders, resulting in USD 56.3 million in net profits in 2021. The following table shows the price-to-earnings ratio of the bank over the previous five years. As demonstrated, except for 2019 and 2020, BOPG has consistently maintained a solid price-to-earnings (P/E) ratio. The COVID-19 downturn pushed the ratios down in 2019 and 2020, but they rebounded to their average level in 2021 as the economy recovered from the pandemic.

Table 11: BOP Profit Payout, 2017–2021 (USD)

	2017	2018	2019	2020	2021
Share Price	2.65	2.32	2.00	1.65	2.00
Dividends Percent	50%	50%	52%	46%	46%
Earnings per Share	0.25	0.25	0.16	0.10	0.23
P/E Ratio	10.6	9.28	12.5	16.5	8.7

BOP is classified as a bank of regulatory importance per the Palestine Monetary Authority (PMA) regulations based on its size, economic effect, and overall performance. This indicates that our activities are large enough to affect the economy's performance. Consequently, we continuously hold ourselves to stricter prudential scrutiny and regulation than other banks in the country. We also attempt to connect closely with the financial authorities to align our strategies with their plans.

^I Values provided are for the entire group, including the deposits and credit facilities of BOP and Arab Islamic Bank, both subsidiaries of the Bank of Palestine Group.

Table 12: Distribution of BOPG Domestic & Foreign Revenues & Assets, 2020–2021 (Mil USD)

Items	Domestic USD mil			Foreign USD mil			Total USD mil		
	2021	2020	2019	2021	2020	2019	2021	2020	2019
Gross Revenues	299.05	262.5	268.3	17.5	16.1	18.3	316.6	278.6	286.6
Total Assets	5587.5	4796.4	4671	920.6	1013.4	593.9	6508	5809	5264.9
Capital Expenditures	12.4	15.8	14.9	---	---	---	12.4	15.8	14.9

The bulk of BOPG's revenues and capital expenditures is produced and incurred within Palestine, as indicated in the table above.

Growth Outlook

Currently, there are only 379 bank branches across Palestine, serving a rapidly growing population of 5 million. The number of branches in Palestine would need to double to meet the financial needs of the present population. In addition, approximately 60% of Palestinians do not have bank accounts which is also illustrative of the growth potential of the country's banking sector. Growth does not mean only the expansion of our physical footprint; it can also be achieved by acquisition of customers through digital banking, thus helping us reduce our carbon footprint.

We are confident in our growth potential, especially within the Palestinian banking sector, and the substantial opportunities to offer financially inclusive and innovative services. We are also confident that our associated competencies will enable us to grow and continue to lead the Palestinian banking industry as a group.

Moving forward, it is likely that our subsidiaries in the financial sector (AIB, PalPay and Al-Wasata Securities) will also become more integrated. AIB, for instance, has a large client base in the Islamic Sharia market which complements BOP's activities and addresses a market BOP had not yet tapped. On the other hand, BOP has an advantage in that it can deliver new digital banking products because of PalPay's status as the largest e-payment provider. Likewise, Al-Wasata's brokerage services complement BOP's financial activities acting as the investment banking arm of the bank.

Diversification has enabled the BOPG to become one of Palestine's most renowned banking organizations and has enhanced our stability by reducing risks and increasing growth potential. Our organization will continue to prioritize diversification as a strategy to maintain our leadership over the banking industry in Palestine.

Products & Services

Bank Accounts

BOP offers a variety of account types. Our clients can choose from current, savings, special-purpose, and business accounts. Our account holders have access to many benefits, including the ability to deposit, withdraw, obtain Debit Cards (ATM cards), initiate and receive transfers, issue check books and write checks. Furthermore, our clients have the option to manage transactions through the online banking service, or our mobile banking application "Banke." Digital services can be used to pay and collect bills electronically, conduct business, and manage trade transactions.

Exclusion from the formal financial sector is known to perpetuate poverty and limit economic growth. Unbanked individuals are often forced to engage in economic activity using informal financial services which often come at higher costs and are riskier. As part of our commitment to sustainability, our management took a stance that stipulates having a bank account as a fundamental right for all Palestinian citizens. This strategy is likely to extend access to more unbanked people and encourage financial inclusion, a key foundation of sustainable economic growth. This program will be discussed in greater detail throughout the following sections.

Volume of Accounts

The following table illustrates the growth of our account volume from 2017 to 2021. To simplify the discussion, it categorizes all BOP accounts into current and savings.

Table 13: BOPG Accounts 2020–2021

	2017	2018	2019	2020	2021
Current	436,074	416,558	445,102	469,240	522,760
Savings	370,422	344,547	419,120	471,030	547,714
Total	806,496	761,105	864,222	940,270	1,070,474
Growth		%-6	14%	9%	14%

As the table shows, BOPG has opened more than one million accounts to date, 522,760 of which are current and 547,714 of which are savings accounts. While most of BOP's clients currently have both types of accounts, this was not always the case. In 2017, saving accounts represented 45% of all accounts but grew more rapidly over time to account for 51% of total accounts in 2021.

The proportion of saving accounts increased partly due to the acquisition of new customers and partly due to a growing trend among clients who only have current accounts to open savings accounts over time. BOP sales teams have strongly supported this trend due to the higher rewards savings accounts provide our customers, the added value they provide to our communities, and the increased domestic savings available for investment.

The table also shows that our accounts have grown more rapidly during the past three years, at an average of 12% for 2019–2021. This rapid growth was the direct result of our focus on financial inclusion. Our success in achieving this growth improved our earnings while increasing the value we generate for our community by reducing the number of unbanked people.

Deposits

Our total deposits increased at an even higher rate than our accounts, as shown in the table below. Our deposits rose from \$3,768 million at the end of 2017 to more than \$5 billion at the end of 2021, consistently scoring impressive growth rates throughout the past six years. Increasing our deposits in this manner allowed us to finance more loans, expand our economic activities, foster economic growth, and provide our depositors with a greater sense of security.

Table 14: Total Deposits, 2017–2021 (Mn USD)

	2017	2018	2019	2020	2021
BOPG Deposits	3,768	3,735	4,115	4,834	5,305
Growth		-1.00%	10%	17%	10%

Much like with accounts, the growth in deposits can be attributed to both new and existing customers. We acquired many new clients who were not previously banked, notably from rural areas where BOPG has placed great emphasis on expanding its presence. As mentioned before, the banking group has developed special accounts to serve relatively disadvantaged members of various communities in Palestine. This effort has also significantly increased the number of savings accounts opened at BOPG, attracting new deposits and enabling the banking group to attain better social and economic results. Second, our clients who already had accounts with us have made increasingly larger deposits over time as their confidence in the bank has grown, and they became more comfortable utilizing our services.

As shown in the table below, the increase in our deposits has enabled us to maintain a market share between 31% and 32% of the total value of deposits in Palestine during the previous six years. Notable here is that we were able to preserve this share despite the intense marketing and promotional efforts of competing banks.

Table 15: Deposits Market Share, 2017–2021 (Bn USD)

	2017	2018	2019	2020	2021
Deposits: Sector Total	11.97	12.23	13.38	15.14	16.52
Deposits: Our Group	3.77	3.74	4.12	4.83	5.31
Our Market Share (Deposits)	31.5%	30.5%	30.7%	31.9%	32.1%

The table below shows the growth of deposits for each account type. We are excited to share that our standard savings accounts and Ana Ou Shatarti accounts, which encourage customers to save in small, regular amounts, drove our growth. The significant increase in the number of small savings accounts is evidence of the effectiveness of our marketing activities—which offer generous savings campaigns and rewards—in enhancing the economic prospects of low- and middle-income households.

Credit Products

Credit is instrumental for economic growth and wellbeing. It allows businesses to finance investments and expand their activities, which drives economic growth and creates jobs. It also enables individuals to meet urgent financial needs and buy commodities that need to be financed over long durations. The lack of access to credit, on the other hand, can constrain businesses and limit their ability to invest and grow, as well as limit the ability of individuals to purchase houses, cars, and the like.

BOPG offers a wide range of credit products designed to meet the needs of different businesses and individuals. As shown in the table below, our credit portfolio has grown from USD 2,554 Million in 2017 to USD 3,453 Million in 2021. This impressive growth has resulted from our commitment to financing the Palestinian economy and supporting businesses in their efforts to invest and grow. Our portfolio of SME lending is the highest in the country. This is supported by our rural presence and the non-financial and financial advisory provided to SMEs as well as by the growth in our deposits, as discussed above.

Table 16: Growth in BOPG Credit Facilities & Related Market Share, 2017–2021 (Mn USD)

	2017	2018	2019	2020	2021
Banking Sector	8,025,978,869	8,437,900,129	M231,9,037,905	10,075,069,420	10,325,885,419
BOP	2,554,216,880	2,782,226,225	2,983,385,227	3,266,748,588	3,453,207,160
BOP Market Share	32%	33%	33%	32%	33%

To fulfill these economic development goals, the bank has designed credit facilities with repayment flexibility and quick and easy procedures. In addition, the bank accepts unconventional credit guarantees that suit the needs of previously unbanked segments of the community. These segments are known to suffer from the lack of access to standard bank guarantees. For example, women who work in the informal sector may lack access to formal bank guarantees but may own valuable jewelry, so BOPG devised a program that provides them with loans guaranteed by the value of their jewelry.

Doing so allows the bank to maintain a high growth rate and market share. It also serves the developmental goals of the Palestinian community, as many of these credit facilities finance the new economic enterprises and support the operational needs of existing ones, and thus, contribute to the creation new income generation streams and employment opportunities.

As a result of these initiatives, the bank has maintained a healthy growth rate relative to the comparable rate of the banking sector in Palestine, as indicated in the table below

Table 17: Growth of BOPG Credit Facilities, 2017-2021

	2018	2019	2020	2021
Sector Total	5%	7%	11%	2%
BOPG	9%	7%	9%	6%

Cards, Payment Systems & Transfers

Cards

As mentioned before, BOP is the first agent for Visa and MasterCard in Palestine. With over 6,000 point-of-sale terminals, BOP also provides its customers with the most widespread card network in the country. The bank issues several types of cards, each providing its users with unique features.

Our customers are more likely to issue debit and prepaid cards than credit cards. Debit and prepaid cards help them spend responsibly and within their means while also allowing them to conduct their financial transactions quickly, conveniently, and securely, which currently seems to be the main need in our market. In addition, the COVID-19 pandemic has also forced people to change their payment habits, guiding them to become more inclined to conduct their transactions electronically. The availability of our cards has thus helped many businesses continue to function during these troubling times.

Payment Facilitation

BOPG is also seeking to expand e-payment options in Palestine. As mentioned above, we are the first agent of Visa and Mastercard in the country, are integrated with PalPay, and possess the largest point- of-sale network. As a result, we are in a position to play an instrumental role in increasing the market penetration of e-payments in the country. The benefits of our payment systems were clear during the Covid-19 pandemic and helped businesses mitigate some of the negative impacts of the shutdown. The following table illustrates how the number of our point-of-sale devices evolved over time.

Table 18: Number of Points-of-Sale, 2018–2021

Year	2018	2019	2020	2021
Number	5,502	6,314	7,069	8,128

Our e-payment business grew rapidly during the past year. This rapid growth is largely attributable to our strategy of expanding into new markets and increasing our marketing efforts. Our expansion into new markets has been very successful, as we have seen significant growth in both the number of transactions and the value of those transactions in the new markets we have entered. In addition, our marketing efforts have also been very effective, as evidenced by the significant increase in traffic to our website and the number of new customers we have acquired. As discussed above, our e-payment systems presented practical solutions for our customers during the COVID -19 pandemic.

Looking forward, we are confident that our e-payment business will continue to be a major growth driver for our company and an excellent tool for creating value for our clients and the business community in the country. We believe that the combination of our expansion into new markets, our focus on customer satisfaction, and our continued commitment to innovation will allow us to continue to grow and maintain our position as a leading provider of e-payment solutions.

Transfers

Bank transfer services allow clients to move funds between accounts quickly and easily. This type of service is often used to pay bills, make online purchases, or send money to friends and family. The benefits of such systems to society are many, including the fact that they provide a secure and efficient way to move money around.

Our local transfers dropped during the reporting period because they were largely replaced by other FinTech services. In contrast, the volume of our international transfers increased as Palestinians connected more to the outside world. We pride ourselves on helping Palestinians meet this crucial need.

Commercial Facilities

Commercial loans can help companies finance their business activities and expand their operations. At BOPG, we offer commercial loans to finance new investments, working capital, trade, purchase of equipment, and more. We also offer a special financing program for women-owned businesses.

SMEs are the backbone of any economy and supporting their growth is essential for economic development. In Palestine, SMEs make up about 95 percent of all registered businesses and account for 60 percent of total employment. However, they often face difficulties in accessing financing.

BOPG has therefore devised several credit products specifically for SMEs. These products are designed to meet the unique financing needs of SMEs and help them overcome some of their challenges. BOP also offers several value-added services to help SMEs grow and succeed, including counseling and guidance.

Our corporate segment accounts for the largest share of our portfolio due to the substantial loan amounts large companies require. They are followed by public sector organizations for the same reason. However, our SME sector displays the largest number of loans, albeit with a much smaller average loan size than the other two segments.

The following figure demonstrates a presentation of our credit facilities across the different sectors of the Palestinian economy.

Sector

Agriculture & Livestock

Associations

Banking Sector

Central Government

Centers & Offices

Chambers

Charities

Clubs

Committees

Consumer

Education

Embassies & Consulates

Energy & Utilities

Financial Services

Health

IT & Professional Services

Insurance Services

International NGOs

Local Government

Manufacturing

Media

Property & Construction

Religious Organizations

Telecoms

Tourism & Entertainment

Transportation & Shipping

UN & International Organizations

Unions

Wholesale & Retail Trade

Trade Finance & Facilitation

Trade finance is an overarching term for services that seek to facilitate trade transactions, especially those across national borders (import/export activities). It often involves issuing documents, insurance, loans, and guarantees necessary to effect a transaction between importers and exporters.

Banks ensure that this process proceeds smoothly by offering services that guarantee the transactions such as the issuance of letters of credit and letters of guarantee. Trade finance services thus play an instrumental element in enabling international trade and also local trade where transaction guarantees are necessary. This is the standard case; the situation in Palestine is much more complex given the restrictions imposed on movement of goods and services

within and without Palestinian territories. BOP has invested considerable effort to create a trade finance function that can fulfill the trade needs of the Palestinian economy and society despite impediments. That is why we regard our trade finance services to be unlike any other bank in relation to the enormous social and economic value they create for the Palestinian people: our services keep Palestine connected to the global economy.

Responsible Finance & Financial Inclusion

We realize that our core business and services have significant direct and indirect positive impacts on our customers, communities, and the entire Palestinian economy. We discuss some of these impacts, and our plans to enhance them, in this section of the report.

Indicators

In 2021, we continued to expand our financial inclusion programs, which focus on providing financial services to people who are excluded from the mainstream financial system, including women, youth, and people in marginalized locations.

Share of bank accounts and deposits segmented by age, gender and location can be used as a measure for the success of the bank's financial inclusion policy. As discussed in previous chapters, in 2021, we achieved impressive results in increasing the number of accounts held by our clients. This was largely due to our financial inclusion vision and our efforts to provide financial services to Palestinians who are not in the mainstream financial system. Most of the people who are unbanked in Palestine belong to low-income groups. Women are also more likely to be unbanked than men are.

Gender

Women in Palestine are less likely than men to open a bank account. Also, they have unique needs that banks in the country were not able to address. As part of our efforts to provide financial inclusion to this segment, we expanded our services and customized them to meet their needs. We also launched various non-financial programs designed to meet women's specific needs under the Felestineya program (refer to next section for details). These efforts have resulted in a substantial increase in the number of accounts that women hold at BOP.

The tables below show the evolution of women-owned accounts and deposits between 2017 and 2021, and demonstrate the bank's double bottom line strategy of increasing the number of female clients while also growing our profits.

Table 19: Percent of BOPG Accounts Held by Women, 2017–2021 (USD)

	2017	2018	2019	2020	2021
Percent of current accounts	22.31%	21.12%	21.04%	21.10%	22.14%
Percent of saving accounts	37.98%	39.11%	39.20%	39.49%	40.62%
Percent of all accounts	30.18%	30.63%	30.97%	31.30%	32.39%

Age

In Palestine, gender is not the only type of financial exclusion. Exclusion based on age is also common. According to recent statistics, the median age of people in the country is 19.3 years, while the life expectancy has increased to 71.4 years. However, the younger and older segments of the population are more prone to experiencing financial exclusion.

Despite the increasing number of skilled youth in Palestine, they are still unable to find work or start new businesses. They also lack the necessary financial services to pursue their goals. Likewise, senior citizens are unable to access the financial services they need for a decent retirement.

To address these issues, BOP has launched various programs and initiatives aimed at helping youth and seniors. It also provides special accounts for young entrepreneurs and supports their entrepreneurial projects, providing them with all the needed services to transform their ideas into new businesses. In addition, it has launched various savings schemes for senior citizens.

While we have still not managed to achieve our goals with respect to senior citizens, we have made significant progress with youth entrepreneurs. We have formed a special group to study the reasons for the lack of progress with seniors and to develop new strategies to address their needs.

Location

In Palestine, greater financial inclusion by geographical locations is much needed. We have made some progress in all regions, but there is still a long way to go. We are working on increasing our presence in all regions and providing more services through our electronic channels to better reach all Palestinians.

Jerusalem presents a noteworthy case of dire need for greater financial inclusion. Despite many Palestinians living in Jerusalem, Israel does not permit Palestinian banks to operate in Jerusalem. This prevents many Palestinians from opening bank accounts. Despite being an issue outside of BOP's scope of activities, as the bank is not permitted to operate in Jerusalem, it illustrates additional forms of exclusion that limit the economic prospects of Palestinian communities. BOP has attempted to address aspects of the problem by opening a special branch in Dahiyat Al

Bareed area outside the city but within the walls, providing banking services to the city's residents. However there remain operational obstacles in meeting the financial needs of all Palestinians due to the restrictions placed by Israel.

Our regions remained more or less steady during the reporting period. However, Jerusalem exhibited a marked increase, albeit still representing only a small fraction of our business.

Programs & Projects

Ensuring financial inclusion and more gender-equitable economic integration rates is essential for the growth of the Palestinian economy. Being a financial service provider ourselves, we realize the value that we can bring to this essential aspect of Palestine's development; we also realize the value that this sector can bring to us as a bank. Our efforts in this sphere include pioneering digital payment and financial service access points, as well as gender-sensitive service suites and support programs. The sections below highlight our investments in these areas and achievements over the past year.

PalPay: Facilitating Digital Inclusion

We pioneered the introduction of much-needed digital payments in Palestine through PalPay– Palestine Payments, which we introduced in 2010. This step was integral for facilitating the movement of money, as well as the growth of businesses as it expanded the opportunities for receiving payments and made the process much faster. For instance, through our PalPay services, we were able to help small businesses and individuals send money to their friends and family members who don't have a bank account, collect their bills, and pay their dues. Previously, similar transactions were mainly conducted in cash, which stifled the money transaction process. Such services are essential within the context of Palestine, where movement is highly restricted by the occupation, which made the process of doing business or running simple errands cumbersome.

PalPay offers a swift solution to these challenges as it offers Palestinians a fast and efficient solution. The service was also essential over the last year when the mobility of Palestinians was further restricted by the COVID-19 pandemic. PalPay transaction reached NIS 1 billion in 2020 alone.

In 2020, we also added e-Wallets to PalPay's set of services, creating an avenue for greater financial inclusion in Palestine. Today 45,000 customers capitalize on our e-Wallet services and have used them to complete thousands worth of transactions.

Felestineya

Felestineya is our flagship program for the effective integration of women within our bank, and the economy as a whole. Since its introduction, the program has conducted extensive research to better understand the experience of women within the banking sector, as well as the experience of female entrepreneurs, and to better cater to them. Since then, the program has trained our staff on how to better serve female clients and has launched a series of technical and financial products and services that cater to the needs and realities of female clients. The program has served 12,500 clients to date.

Among Felestineya's non-financial offerings is the Mini-MBA program, a 6-month capacity development program that covers the areas of business development, marketing, customer service skills, human resource management, financial management, and taxes and registration.

A 2017 evaluation² of the program revealed that graduates of the program were able to double their revenues, as well as expand their workforce by close to 30%. Such results are achieved by expanding their technical knowledge, as well as their networks and capacity to access finance, among other benefits. The year 2020 witnessed the graduation of the program's 5th cohort. To date a total of 140 women have graduated from the program since its establishment.

Felestineya also offers Non-Financial Advisory Services (NFAS) to young female entrepreneurs and female founders of startups and MSMEs. Felestineya has extended NFAS to 4,000 Palestinian women to date.

Youth Empowerment and Entrepreneurship

Youth is another integral segment of Palestine's economic expansion and growth. Hence, investing in young Palestinian talents has been at the core of our shared value creation endeavors. Specifically, we have launched a series of efforts and interventions to foster a vibrant entrepreneurial ecosystem in Palestine.

Ibtikar Fund

We founded Ibtikar Fund to enable Palestinian entrepreneurs, both within and outside Palestine, to reach their full potential, and actively contribute to economic growth and job creation in Palestine. The USD 11 million Ibtikar Fund invests in teams at different stages, including idea stage, early stage, and scale-up.

To date, Ibtikar has invested in and supported over 29 companies across the sectors of marketing technology, financial technology, real estate, health and wellness, and e-commerce. Ibtikar's portfolio has created over 300 employment opportunities for highly skilled Palestinians (30% women and 50% aged 18–30). Ibtikar is currently in the process of raising a second fund, valued at USD 30 million.

2 International Finance Corporation – IFC. (2017). "Evaluation Report: Bank of Palestine Strengthens Women-Owned Businesses and the Economy", https://www.ifc.org/wps/wcm/connect/85ab284b-12a5-4345-ad8b-4a41131cf0d9/Bank_of_Palestine_Eval_Report_FINAL.pdf?MOD=AJPERES&CVID=m-6mdDM1, accessed September 15, 2022.

Intersect Innovation Hub

In 2020, we decided to take our contributions to Palestine's innovation and entrepreneurship ecosystem a step further by investing in innovation in general to help fill a gap and provide a pipeline of incubated startups for investment by Ibtikar. We launched the Intersect Innovation Hub, which will comprise a series of offline and online meeting spaces that are designed to nurture much-needed innovation. In its first stage, Intersect will focus on supporting innovations in the spheres of FinTech and Financial Inclusion, Circular Economies, and other impact-driven innovations. It will do so through the provision of space, as well as opportunities for networking, pre-acceleration, incubation, and mentorship opportunities designed to allow innovators to test out and transform their ideas for social change into viable business models.

The Diabetes Impact Bond

The goal of the initiative is to combat the rise of Type II Diabetes Mellitus in Palestine, a disease that affects around 15% of its population. In Palestine, patients with Type II Diabetes can take five years to be diagnosed by which time they have lost 60% of their insulin production.

The United Nations Relief and Works Agency (UNRWA), the second largest provider of health services in Palestine, already allocates 22% of its annual medical budget for this disease. The cost of insulin alone absorbs 15% of the budget.

Due to the lack of a cure, living with this condition requires daily care and is considered expensive to manage. This has caused the health system to be overloaded. Without behavioral changes, the amount of money needed to fight the disease will continue to increase.

Through the launch of a social impact bond, BOP and the Paltel Group Foundation are seeking to improve the health of Palestinians by preventing Type II Diabetes. The project was the first social bond in the region. BOP acts as the financier in this project, while the Paltel Group Foundation has taken up the role of the outcome payer.

The project consists of two parts: a nutrition education program and a physical education program. The first part seeks to teach participants good eating habits and the second one promotes exercise as a lifestyle. In so doing, the project aims to prevent diabetes among 150 prediabetic women living in the West Bank.

SME Finance

Small and medium-sized enterprises (SMEs) are expected to play a vital role in the development of Palestine's economy, provided they have access to the right support mechanisms. Supporting SMEs is crucial for the country's long-term economic growth as they contribute heavily to employment growth in Palestine. SME products are also known to help us reduce our costs and enhance our ability to develop better products and services for our customers.

The banking group has, thus, focused during the past two years on expanding outreach and improving the efficiency of its SME operations. Our SME finance programs allow us to diversify our sources of revenue and ensure the success of our financial inclusion policy.

In 2021, we supported over 460 additional SMEs through our sustainable finance framework, offering credit facilities that totaled USD 60 million. We also signed several agreements with various partners to encourage employment and support start-up projects. These agreements included joint finance projects with the European Investment Bank and the European Bank for Reconstruction and Development, as well as the development of a financial services agreement with the Arab Fund for Social Development.

BOPG also provides microloans through our collaboration with the Palestinian Monetary Authority's Estidama Fund. Through this partnership, we have supported over 45 women's projects. These projects were also part of our efforts to encourage and support women in businesses and reduce poverty in Palestine.

Our financial literacy programs also provide free financial training to women and small businesses. This includes helping small businesses develop their loan request cases, a requirement that used to stifle their access to finance.

The table below provides a summary of the microloans that we disbursed through our Estidama Loans Program.

Table 20: Estidama Microloans Disbursed by Gender, 2021 (USD)

Female	418,900
Male	3,577,926
Total	3,996,826

Other Support to Small Businesses

BOPG has also taken steps to provide loans to support the Palestinians affected by the COVID-19 pandemic. The bank partnered with the UNDP to provide additional support to SMEs. The project, known as Monshati, is designed to provide SMEs with access to suitable sources of credit

Additionally, the banking group implemented a financial portfolio of USD 1 million to specifically support and assist small businesses of people with special needs. The bank implemented this project in partnership with the Ministry of Labor and the PMA. The program provided between USD 460 and USD 485 million in loans for these small businesses in 2020 and 2021, respectively.

In addition, we launched new programs designed to provide financial services to Palestinian workers within the Green Line, new car loans, and new mortgage programs targeting the lower income segments of Palestinian society. We also launched the Personal Loan for the Public Sector program, which we expanded to include all public sector employees (previously, the program targeted certain types of public sector employees). This service is designed to provide lower-income customers with more sustainable financial solutions. Furthermore, we extensively expanded our support to micro-enterprises, now offering personal loans for the owners of these businesses and their employees.

Our People

In 2021, our workforce consisted of an impressive 1,745 employees throughout our facilities in Palestine, 551 at our headquarters in Ramallah and Gaza and 1194 in our branch offices.

While this gives us a broad pool of talent pool to implement our strategy and undertake business operations, it also places an obligation on us to meet our employees' expectations. We believe it is our responsibility to provide out team members with a competitive income, good working conditions, training and development, health and safety services, opportunities for career advancement, and an inclusive and respectful work environment.

Our human resources are the foundation of our productivity, growth, and continuity, and they are essential to the success of our sustainability initiatives. Therefore, we endeavor to offer them rewarding careers, a safe environment, and appropriate working conditions. In addition, we have joined the United Nations Global Compact (UNGC) and incorporated its labor and human rights principles into our internal bylaws, therefore committing ourselves to ethical workplace practices.

Organizational Structure

In 2021, BOP sought assistance from one of the foremost consulting firms to strengthen our human resource management activities. This initiative led to various changes within the bank. To create inclusive and effective career development opportunities for all our workers, we re-evaluated and improved our organizational structure and analyzed the roles and responsibilities of each position within the bank. Additionally, we made consistent efforts to enhance our performance evaluation system and employee benefits program.

The following diagram depicts our new organizational structure:

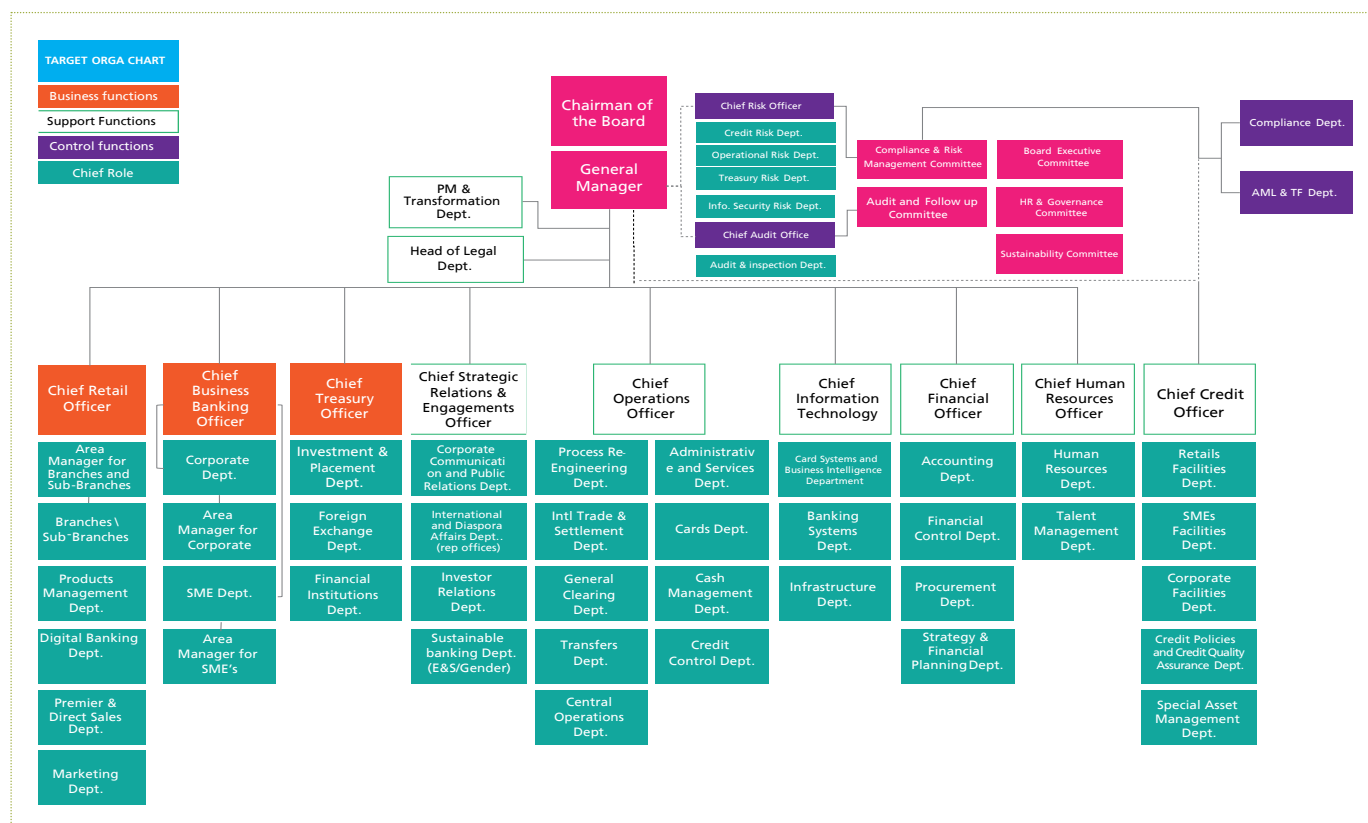


Figure 5: BOP Organizational Structure

What is noteworthy within our new organizational structure is the establishment of a new Talent Management Department (to replace our Training Department). This department is responsible for training and development and succession planning. One of the main objectives of this shift is to better ensure that all our employees are granted the opportunity to develop their skills, further their knowledge, and progress within their careers.

The above organizational structure also includes the newly established Sustainable Banking Department, which takes initiative in leading and coordinating our different sustainability efforts. The presence of a direct communication channel to the CEO and the BOD underscores the importance we attach to sustainability within the Bank.

Recruitment & Talent Development

BOP has a long-standing reputation as one of the top employers in Palestine. We offer a challenging and dynamic work environment, attractive salaries, and comprehensive benefits. In addition, we provide our employees with opportunities for career advancement and professional development.

BOP recruits personnel from a wide range of sources, including universities, job fairs, and through open announcements. In 2021, we received a total of 11,505 applications, of which 51.5% were submitted by women and 48.5% by men. The following table shows the number of new recruits, disaggregated by gender and age group.

Most of our recruits, as shown in the table below, are young, with 62% and 60% under 24 years of age in 2020 and 2021, respectively. This is consistent with our strategy of focusing on and investing in young talent. Furthermore, the table also demonstrates our commitment to gender equity, with female recruits accounting for 44% and 55% of all new hires in 2020 and 2021, respectively. Our gender performance in Gaza and the North West Bank, as mentioned earlier, continues to lag behind the rest of the bank. Nevertheless, we are taking steps to improve such ratios seeing as the 42.8% of overall bank staff are women.

Table 21: Recruitment by Age & Gender, 2020–2021

Region	Women	Age (years)								
		24–18		34–25		44–34		54–45		
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Gaza	0	3	0	8	0	10	0	0	0	0
North West Bank	3	2	2	7	2	5	0	0	0	0
Middle West Bank	22	23	35	34	18	31	1	5	1	2
South West Bank	6	5	6	11	4	7	0	0	0	0

We also strive to provide our staff with the best training and development programs. The creation of the new Talent Management Department required expanding the previous Training Department's scope and goals and directing it to focus more on sustainably investing in our people. The new department conducted 98 training sessions with 1,431 participants in 2021, a third of whom were women. Therefore, each of our staff participated in an average of three training programs in the past year.

In 2021, our training programs also included sustainability-related training for all senior executives and the introduction of new sustainability management and reporting skills at the board level. Moreover, our Sustainable Banking Department personnel received specialized and intensive training to enhance their skills and knowledge in this area.

Compensation & Benefits










BOP is well-known for paying above-market wages and offering attractive benefits to recruit and retain the best human resources in Palestine. In 2021, the wages and benefits to our employees reached a 54% of total expenses. This represents an increase of 2% compared to 2020. We continue to strive to achieve equity in wages between women and men in the bank and are taking action to rectify wage discrepancies across the board in line with new evaluation and salary adjustment project we undertook in 2021.

Table 22: Distribution of Salaries by Gender & Position, 2021

Employee Category	Percent of Women in the Workforce	Percent Earned by Women of Total Salaries
Executive management	17%	12%
Department and branch managers	19%	15%
Sub-Branch managers and supervisors	21%	21%
Heads of Sections	28%	23%
Officers and secretaries	47%	40%

While the bank recognizes that it needs to bridge the gender gap in higher management positions as per its commitment to close it in 2025, the bank pay scale to both men and women has no gap or discrepancy. The pay gap is a result of the job evaluation itself based on the functions and has nothing to do with gender.

In addition to the compensation discussed above, BOP also provides a variety of benefits which play an important role in attracting, motivating, and retaining our employees and help them maintain a healthy work-life balance. Our benefits include:

-  Healthcare: A comprehensive health insurance policy covers all BOP employees and their families.
-  Education: Employees and their families can benefit from educational loans to cover the cost of tuition fees at accredited institutions.
-  Housing Assistance: Our employees can apply for housing loans with attractive interest rates to buy or build homes.
-  Life Insurance: Our employees are automatically enrolled in a life insurance policy upon joining the bank.
-  Retirement: Our employees can join the BOP pension scheme, which offers them a retirement income after reaching the age of 60.
-  Parental Leave: BOP offers paid parental leave for both men and women (3 months for women, one week for men); see table below.
-  Stock Ownership: BOP employees can access BOP shares through the Employee Stock Ownership Plan (ESOP), which regulates who can access these shares in addition to how and when.
-  Allowances and Bonuses: BOP offers its staff family allowances for husband, wife, and children, for both male and female employees; BOP also offers bonuses in celebration of feasts and provides dress code allowances.
-  Discounted Services: Our employees can generally access our services and products at a discounted rate.

The following table summarizes the number of employees who took paternity and maternity leave during 2020 and 2021. It is noteworthy that the bank now offers its female employees the same child allowance previously offered only to male employees.

Table 23: Number of Full-Time Employees Who Took Paid Parental Leave, 2020–2021

	Males	Females	Total
Number of employees who took parental leave in 2020	110	104	214
Number of employees who took parental leave in 2021	110	81	191

Performance Appraisal & Grievances

All our employees received performance appraisals and guidance in 2020 and 2021. In terms of grievances, our bylaws have clear and transparent grievance mechanisms. The system encourages employees to communicate with their management through email, discuss their concerns with senior managers through an open-line policy and suggestions email, and raise their issues with the HR department confidentially and without fear of retaliation.

The bank's HR department thoroughly reviews all complaints and takes the necessary steps to address them following the bylaws and policies. It also handles various types of discrimination and sexual harassment complaints. During 2020 and 2021, all cases involving harassment and discrimination were dealt with as per our bylaws and internal procedures.

Turnover

The table below shows the number of employees who left the bank, disaggregated by age group and gender. BOP's turnover rate was 3.5% in 2020 and decreased to 2% in 2021. The bank's turnover is considerably lower than its new recruitment among younger employees, with those aged 20–24 accounting for 21% of the total number of employees who left the bank. Turnover among our female staff was also visibly lower than our female recruitment rate, standing at 34% in 2020 and 2021.

Table 24: Turnover by Age & Gender, 2020–2021

Region	Women	Age (years)										
		24–18		34–25		44–34		54–45		55		
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Gaza	1	3	0	N/A	1	10	0	0	0	0	5	4
North WB	0	2	0	N/A	0	5	0	0	0	0	1	2
Middle WB	18	32	12	17	18	31	1	5	5	5	6	0
South WB	2	5	1	N/A	4	7	0	0	0	0	0	0

Diversity & Inclusion

A diverse and inclusive workplace is essential for attracting and retaining top talent. It is also important for ensuring the wellbeing of our employees, which is a priority at BOP. Consequently, our workforce and executive ranks are composed of members of all of Palestine's social segments and religious groups.

People with Disabilities

Currently, 0.7% of our positions are dedicated to staff members with special needs, and we want that number to increase over the next decade. To do that we are exploring ways to help invest in the capacities of potential hires. Additionally, we are committed to ensuring that our workplace is accessible to everyone, including individuals with special needs. We will continue to offer training and development opportunities catered to staff with special needs, and create awareness amongst all employees about diversity and inclusion.

Gender

BOP is committed to achieving gender equality. We have a set of policies and procedures in place to ensure that our hiring process is unbiased. Furthermore, we offer training and support within the bank to make sure that women have the opportunity to advance their careers with us. These efforts allow us to respond better to the issues and needs of our female staff and clients.

Within our inclusive environment, the proportion of women working in core positions at BOP (excluding security and housekeeping services) increased from 40% in 2018 to 42.8% in 2021, as reflected in the table below. By contrast, only 36% of all BOP jobs (core and support jobs) are held by women because support services, such as security and housekeeping, continue to be male-dominated and are outsourced to external suppliers. We are currently developing a program to address this issue.

Table 25: Percentage of Women in Core Jobs at BOP, 2018–2021

2018	2019	2020	2021
40%	41%	42%	42.8%

In the next five years, BOP aims to increase the proportion of women working in core BOP jobs to 50% of the core workforce. We feel that this goal is achievable despite significant challenges. Additionally, we want to achieve gender parity in our support workforce in the next ten years. Despite our ambitious vision, the bank recognizes that this is a challenging objective as it requires altering the organizational cultures of external service providers. Nonetheless, we are adamant about continuing to make strides to improve gender equality.

Currently, we are focused on improving our performance in the regions that display our lowest gender performance. As the table below indicates, Gaza and, to some extent, the North West Bank regions warrant special attention, and we are already working on pushing both areas to catch up with the rest of the bank.

Table 26: Gender Distribution by Region, 2020–2021

Region	Women	
	2020	2021
Gaza	22.8%	27%
North West Bank	36.9%	45%
Middle West Bank	44.4%	50%
South West Bank	42.2%	54%
BOP Overall	36.0%	42.8%

The following table illustrates the distribution of BOP workforce by region to provide context for the previous discussion on the performance of our human resources function.

Table 27: Workforce Distribution by Region

Region	Percent
Gaza	27%
North West Bank	14%
Middle West bank	35%
South West Bank	10%

We also want to improve the percentage of women in BOP management. The following table shows the percentage of women in management positions today.

Table 28: Workforce Distribution by Gender & Managerial Position, 2021

Employee Category	Women
Executive management	17%
Department and branch managers	19%
Sub-branch managers and supervisors	21%
Heads of sections	28%
Officers and secretaries	47%
Support staff (security, housekeeping, etc.)	0%
Total	43%

We aim to increase the percentage of female executives at BOP to 25% of all executives in the next five years as a milestone in our journey to reach total gender equity in the long term. Our new policies have already yielded improvements in gender parity at the branch manager and section head level, as shown in the table above.

Nevertheless, the table also shows a significant opportunity for BOP to award higher management positions to women. While BOP has a long-term goal to reach gender equity in core employment during the next five years, attaining the same management level will require more time as we strive to recruit our management personnel internally. However, programs to instill leadership skills in BOP younger staff (discussed below) should significantly help close the gap by providing a bigger pipeline of women on leadership tracks.

Youth

In 2021, we implemented the "Future Managers" program to instill leadership and technical skills among our young staff. The program provides technical and leadership training to staff members between the ages of 25 and 30. By investing in them we are also investing in the future of the bank.

We also launched the "Heads of Departments Club for Excellence in Customer Service," which strives to develop the skills and competencies needed to steer the bank towards operational excellence. This program has targeted many of BOP's young staff during the reporting year.

Moreover, we launched an internship program in 2021 to attract fresh university graduates. This program targets youth as they are the highest segment that suffers from unemployment within Palestine. The internship is designed to prepare young people for the workplace and create a talent pipeline for the bank.

The following table illustrates the distribution of our workforce by age and region. As the table shows, we do not employ staff below 20 years old, as our line of business does not allow it. Most of our employees are in the age bracket of 25–44 years old.

Table 29: Distribution of Workforce by Age & Region, 2020–2021

Region	Age									
	20-24		25-34		34-44		45-54		≥55	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Gaza	0.2%	1.7%	32.6%	34.8%	41.4%	38.6%	19.2%	20.0%	6.6%	4.9%
North West Bank	4.1%	1.9%	51.3%	27.2%	31.7%	18.9%	11.1%	4.9%	1.8%	0.4%%
Middle West Bank	14.6%	14.0%	54.2%	72.4%	23.7%	35.9%	5.7%	7.2%	1.8%	1.7%
South West Bank	6.3%	3.4%	62.0%	24.2%	26.2%	10.2%	5.1%	1.1%	0.4%	0.0%
BOP Overall	7.3%	6.5%	47.9%	49.0%	30.9%	32.0%	10.7%	10.2%	3.1%	2.2%

We are committed to creating a diverse and inclusive workplace reflective of the communities we serve, and we have are planning numerous initiatives to promote diversity and inclusion within the bank. These include unconscious bias training, an Employee Resource Group for women, opportunities for our youth, and skills training for students with disabilities.

Investing in Local Communities

Our strategy has been, and continues to be, dedicating approximately 5% of our profits to community human development and to support the less advantaged sectors of our society. Our strategy encompasses support for the environment, women, people with disabilities, youth, education and several other segments. We aim to reach our goals by implementing special programs that include initiatives such as our enterprise incubator, health campaigns, and relief campaigns. We also seek to maximize our impact through collaboration with local and international NGOs, donor agencies, social investment organizations, and other groups interested in pursuing similar objectives.






Over its history, BOP has amassed extensive experience in dealing with humanitarian and community issues and addressing health problems owing to its continuous partnership with civil society organizations in Palestine. The bank aspires to deepen these partnerships grow even more to realize its goals of building a better future. The impact of BOP programs is felt in every part of Palestine thanks to the bank's innovative initiatives and community development programs.

The bank also promotes a culture of volunteerism among its employees and encourages their participation in the developmental projects and humanitarian endeavors implemented with partner organization.

BOP develops an annual CSR plan based on country needs and the economic situation at the time. The past two years have presented us all with exceptional circumstances as the COVID-19 pandemic put everyone's health and well-being at risk. These exceptional circumstances called for exceptional measures. We dedicated most of our social investment and shared value creation wallet to the health sector, particularly in 2020. This has enabled us to support the Palestinian government and essential civil society organizations to mobilize effective prevention and treatment responses to the pandemic. More importantly, we capitalized on our traditional and digital media efforts, and diaspora networks to mobilize as many resources as possible towards Palestine's COVID-19 response. We were able to successfully raise a significant amount in funds from our resource mobilization campaign. Our contribution, as well as that of our staff, to the crisis response efforts amounted to USD 500,000. This is in addition to in-kind donations that we made as a bank to frontline medical staff.

In parallel, we partnered with the Ministry of Health, the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), and multiple other key players to raise awareness about prevention of the spread of the pandemic, as well as to ensure that health facilities were well-equipped and prepared to deal with emerging cases. Collaboration efforts included the launch of a series of 25 awareness-raising videos.

In 2021, we expanded our focus to additional areas, including:

-  Relief assistance
-  Health
-  Education
-  Community development
-  Women's empowerment
-  Youth and creativity
-  Childhood
-  Culture and arts
-  Sports
-  Environmental issues
-  People with disabilities

The table below provides a breakdown of our investments in essential development efforts over the past two years:

Table 30: BOP Expenditures on Community Development Projects by Type, 2020–2021 (USD)

Area	2020		2021	
	Amount Spent	Percent of Budget	Amount Spent	Percent of Budget
Relief Assistance	348,445.30	18.4%	221,195.47	12.5%
Health	922,379.20	48.7%	514,899.52	29.1%
Education	214,635.36	11.4%	116,326.68	6.6%
Community Development	52,000.00	2.8%	378,153.85	21.4%
Women's Empowerment	83,529.63	4.4%	22,798	1.3%
Youth and Creativity	30,000.00	1.6%	47,581.22	2.7%
Childhood	125,000.00	6.6%	253,684.12	14.3%
Culture and arts	104,589.00	5.6%	105,000	5.9%
Sports	10,000	0.5%	56,443.79	3.2%
The Environment	0.00	0.0%	11,537.89	0.7%
People with Disabilities	0.00	0.0%	40,920.35	2.3%
Total	1,890,578.49	100.0%	1,768,540.89	100.0%

The table below details the main projects funded by our CSR funds in 2021.

Table 31: Main Community Development Projects, 2021

Project	Description
The Wajd Program	The Wajd Program was established in partnership with the Qatar Fund for Development and the Taawon Foundation. Through this initiative, BOP was able to provide financial and psychological support to orphans and youth who suffered from the 2014 aggression on the Gaza Strip. The program also offered professional and career skills development. Additionally, BOP was able to provide healthcare to over 2,000 individuals.
Palestine in the Heart campaign	In May 2021, BOP partnered with various international organizations and local communities to launch a campaign to raise funds and provide relief to the Palestinians affected by the aggression in Gaza.
The Palestinian Museum	Through a strategic partnership with the Palestinian Museum, BOP was able to support the organization's activities for a period of 10 years. The goal of the partnership is to promote the culture and history of Palestine at the international and local levels. It also aims to create new narratives about the country's history and culture. The museum's facilities and programs are also used to develop educational programs and creative projects.
Diabetes campaign	Over the years, BOP has partnered with various community organizations to raise awareness about the harms of diabetes and ways to prevent it.
TEDx Women	BOP supported the TED Talks event held in Palestine, where inspirational individuals from the country discussed their experiences and lessons learned. The goal of the event was to inspire and motivate people to make a lasting change in the community.
Ramadan campaign	During Ramadan, BOP partnered with various community organizations to provide food baskets to underprivileged families. They were also able to distribute gifts to children receiving treatment at local hospitals.

Augusta Victoria Hospital in Jerusalem	Due to the limited resources and the high cost of transportation, a bus was provided to Gaza Strip patients to transport them to the Augusta Victoria Hospital in Jerusalem for free. This helped them reduce their financial burden and improve their treatment journey.
Post-war recreational activities for children and adolescents in Gaza	The goal of this project was to provide psychological support to individuals with disabilities following the recent operation by the Israeli military in Gaza. Through various recreational activities and educational programs, BOP was able to help these individuals better deal with their traumas.
Supporting the Palestinian sailing and rowing federation in Gaza	BOP was able to help the rowing and sailing federation in Gaza organize many of their sports activities.
Global Entrepreneurship Week	Through its sponsorship of Global Entrepreneurship Week, BOP was able to encourage young entrepreneurs to develop their business ideas and solutions. The event is a global initiative that aims to motivate start-up companies to deliver innovative products and services.
Eco-friendly schools	In line with its mission to promote the concept of sustainability, BOP partnered with several schools in the city of Ramallah to recognize their efforts to become eco-friendly. These schools were encouraged to adopt various environmental measures and contribute to the improvement of the environment. Through this program, BOP was also able to support and encourage outstanding individuals and organizations in the field of environmental protection. the project was implemented in partnership with the municipality of Ramallah.

Environmental Performance

BOP has a longstanding commitment to environmental protection. We have repeatedly made significant efforts to improve our environmental performance, primarily by initiating and expanding green lending programs and reducing the energy consumed by our operations. In 2021, we embarked on a new journey to develop and implement a unified environmental approach that we intend to use to integrate and maximize the impact of our environmental interventions. While we are still in the early stages of this journey, we have already taken steps and made commitments to systematize our work and consolidate our environmental management efforts.

Our environmental management approach comprises four components: sustainable energy, water conservation, energy preservation, and waste management. These components were developed as we engaged with the environmental standards of the GRI as a means of addressing our material environmental topics.

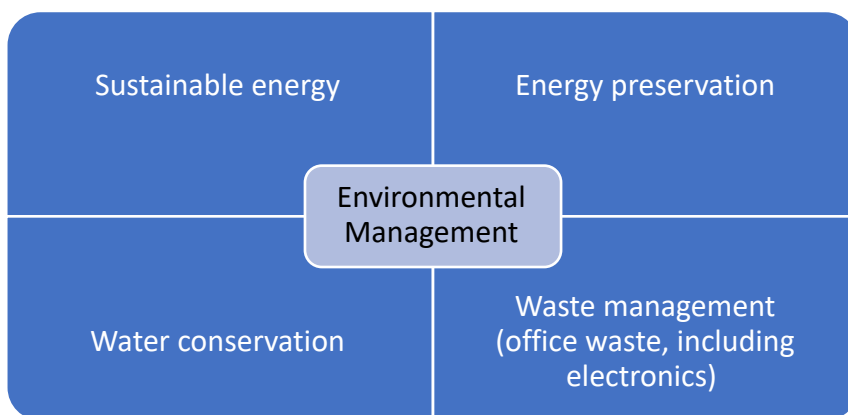


Figure 6: BOP Environmental Management Approach

This approach involves strengthening four management elements:

1. Environmental due diligence
2. Green lending & Investment
3. Reducing our direct environmental footprint
4. Monitoring our environmental performance

We are confident that this approach will help us achieve our goal of becoming a leading institution in environmental protection. Our aim is to lead by example, encouraging other financial institutions to implement similar programs and work with us to achieve tangible goals in the fight against environmental degradation.

Environmental Due Diligence

At BOP, we have decided to expand our exclusion list policy, which lists actions and items that have the potential to cause substantial environmental impact, in an effort towards becoming more environmentally conscious in our business activities. Whilst our current policy forbids us from funding projects that lack the required environmental approval, it does not specifically address how customers could potentially enact environmental impact. Expanding our exclusion list policy will help us focus more on projects with a lower risk of causing negative environmental impact. In tandem, we aim to expand our current due diligence procedure to include an environmental component. This will help us ensure that the projects we finance will not have significant negative impacts on the environment.

Additionally, we plan to engage closely with the Palestinian Environmental Quality Authority (EQA) in verifying that the projects we fund do not inflict damage to the environment. Through this partnership, we hope to capitalize on their technical expertise to be able to make better-informed decisions about the projects we choose to finance.

Finally, while we want to delegate complex environmental assessments to specialized institutions, such as the EQA we want the BOP team to be able to conduct simple environmental impact assessments for requests for medium- to large-sized loans. Many of these endeavors are still in progress; nevertheless, we plan to finalize these goals by the end of 2023.

Green Lending

In addition to our direct environmental impacts, we have substantial indirect impact through the new projects and business ventures that we finance. We are working to better understand these impacts by expanding our due diligence procedures to include an environmental component, however, BOP manages millions of transactions that serve industries and services of all types and sizes. Therefore, we cannot estimate the total indirect environmental impact of our services, as it lies beyond both our control and our monitoring ability. Our goal is to harness our position as a supplier of financial services to encourage our customers and prospective clients to enhance their environmental performance. Accordingly, we will continue to create and deploy green loan products that support our customers' investments in eco-friendly technology and processes.

Since 2011, our green lending program has dispersed loans used to finance investments in renewable energy, green buildings, water conservation, and other environmentally friendly projects.

Table 32: BOP Green Loans, 2013–2021 (USD)

Year	Amount Disbursed	Number of Loan Recipients
2013	67,000	7
2014	579,740	15
2015	1,322,486	20
2016	165,157	19
2017	484,291	59
2018	339,274	39
2019	3,974,770	34
2020	5,512,218	72
2021	5,379,656	15

As the table shows, the value of our green loans increased over 100-fold over the past decade. This is a testament to the growing importance of environmental issues and to our commitment to financing projects with a positive environmental impact. In addition, the average loan size increased dramatically, indicating that our customers are increasingly financing larger projects.

Although we cannot quantify the environmental impact of these loans today, we are certain that the program has had a positive environmental impact by supporting green investments that would not have otherwise been possible. The targeted investments are known to yield reductions in greenhouse gas emissions, water consumption, and energy use. Our green loans have also helped create jobs and support the growth of the green economy as they have generated substantial income for the suppliers of this nascent market.

We plan to continue focusing on environmental sustainability by expanding our green lending program and increasing our due diligence on potential borrowers' environmental impact. In addition, as discussed before, we also hope to improve our ability to report on the indirect environmental impacts of the projects we finance.

In addition to our general green lending activities, we have two programs that specifically aim to increase access to funding for green initiatives: The SUNREF Program and Qudra. Both involve synergistic partnerships designed to maximize impact and encourage green investment in Palestine.

The SUNREF Program

BOP established the SUNREF program in 2019 with the French Agency for Development and the European Union to provide green and renewable energy loans. In 2021, the program concluded its first phase. Due to its success, preparations to launch a second phase are underway.

The program seeks to fund environmental projects implemented by individuals, households, private companies, public companies operating under market conditions, and local energy contractors and leasing companies. Projects financed by SUNREF include initiatives in the following areas:

Renewable energy projects:

- o Solar
- o Wind
- o Biogas & Biomass
- o Geothermal

Energy Efficiency projects:

- o Building retrofit
- o Replacement and modernization of industrial and agricultural machinery

Environment improvement projects

The program has already disbursed USD 13,697,078 million to 106 projects, including 25 in Gaza and 81 in the West Bank. The following table provides summary statistics of these loans.

Table 33: Summary of SUNREF Performance (USD)

Type of Investment	Total Loans	Number of Borrowers
Renewable energy	10,699,168	68
Reducing energy consumption	633,415,1	11
Other energy efficiency	1,582,275	27
Total	13,697,078	106

Projects financed by the SUNREF program created 51,140 kilowatts of electric capacity, which generate 28,250 megawatt-hours of energy annually.

Qudra

The Qudra Energy Solutions Company is a joint venture between BOP and external partners. The company was established in 2020 to deliver solar assets with a targeted capacity of 100MW. Its goal is to supply Palestinians with clean, affordable energy. This is especially important for Palestine since 95.9% of its electricity is imported.

The new company seeks to deploy solar assets that would replace up to 30% of the total annual consumption in Palestine. BOP also entered this partnership with the conviction that it has a central role to play, as it can help fund Qudra projects and contribute to the development of the energy sector in Palestine.



In 2021, Qudra continued to develop solar energy projects in various governorates. It also provided integrated solutions and services, such as designing, constructing, and operating solar power plants. The company was able to build a solar power plant with a capacity of 1 megawatt, the company's largest to date. Qudra has also signed multiple agreements to deliver energy solutions in 2022, including constructing new solar power plants for multiple electricity distribution companies. Through our partnership with Qudra, BOP has also been able to provide solar power generation facilities to low-income households. Our stakeholder consultation process indicated that this service allowed them to secure their energy needs in a clean and risk-free manner.






Qudra will reduce carbon emissions by over 100,000 tons through its projects over the projects' lifetime. This will contribute to protecting the environment in Palestine as well as towards the fulfillment of global climate goals as articulated in the SDGs.

Reducing our Direct Environmental Footprint

BOP recognizes that our operations impact the environment and are committed to reducing their environmental footprint and enhancing the environmental sustainability of our operations. We plan, therefore, to continue to invest in energy efficiency improvements at our branches and offices. We have also committed to using only renewable energy for our electricity needs by 2030.

Despite lacking the ability to quantify our environmental performance and impacts, we have continued to implement environmental protection projects and have invested in various enhancement efforts over the past five years, including:

-  Converting lighting to LED lights in all offices and ATM units – All new facilities are equipped with LED lighting which are 80% more energy-efficient than traditional incandescent lights.
-  Employing smart building control systems – Since we started using KNX 4 years ago, we have been able to control the lighting and mechanical loads in our new bank facilities. KNX is an Energy Performance Class 4 certified product, which means that it can provide up to 50% energy savings and lower greenhouse gas emissions.

-  Using energy conservation and cleaner energy systems to decrease carbon emissions and reduce energy waste in building heating and cooling systems – Selecting an efficient mechanical system, such as a VRF HVAC system, is a key component in designing and implementing our new facilities, which are 40–50% more efficient than the standard ASHRAE 90.1 system.
-  Employing a more effective fire extinguishing system – New fire systems have a much smaller environmental impact than older ones and use extinguishing agents that don't deplete the ozone layer.
-  Using better quality insulation in buildings and facilities – Better insulation of walls, ceilings, and floors helps reduce building energy consumption by up to 25%.
-  Planting trees in the vicinity of our branch offices – Trees not only beautify the environment but also help reduce carbon dioxide emissions, one of the greenhouse gases that contribute to climate change.
-  Including water-saving fixtures in all new buildings and facilities – Water-saving fixtures can help save thousands of gallons of water each year.

Our Paper-Saving Project

In 2021, we concluded a bank-wide paper-saving project which entailed conducting a survey to understand our paper usage and developing paper saving and usage reduction policies. All employees were encouraged to migrate to digital alternatives, and a task force was created to monitor the impacts of the introduced policies and the initiatives. This project saved 1.5 million sheets of papers in 2021 alone.

Monitoring our Environmental Performance

In the past, our general environmental strategy focused on introducing new solutions to enhance the positive environmental impact of our products and services. As a result, we have paid less attention to monitoring and assessing the environmental impacts of our direct operations since they were neither energy-intensive nor created substantial environmental impacts.

We recognize that there are issues in our systems that make us unable to measure our direct environmental footprint as we cannot track indicators such as office waste and energy consumption from staff commutes, amongst a variety of other factors. However, BOP decided to report its environmental outcomes and plans to develop a monitoring system to help with reporting environmental performance by 2023.

The Way Forward

With a long-embedded presence dating back to 1960, the Bank of Palestine continues to lead the Palestinian banking sector. BOP is both the largest and the most comprehensive banking network in the country, with 73 branches accounting for 19.3% of all bank branches. Our journey stated in response to the Palestinian people's desire for financial freedom and liberation, and we are proud to have created a national banking market (formerly non-existent) to serve them. Our mandate has evolved to providing inclusive and sustainable financial products and services that are community-serving, stakeholder-driven, and innovative.

Through our electronic payment platform, PalPay, BOP's payment facilitation options have revolutionized financial transactions across the country by serving people from all segments of Palestine who may not have access to physical banking facilities. Being first to market with digital payment methods was especially important in having readily available solutions to mitigate some of the negative effects of COVID-19 on businesses. Our green lending activities, work to incentivize to address pressing local needs and to facilitate survival and growth within the Palestinian community and economy.

As our bank expands, we intend to continue to give back to our communities and employees. BOP views inclusion and diversity as critical to promoting equity, increased productivity, and innovation. That is why, over the next phase, we will be working on enhancing policies, procedures and strategies for greater diversity within our bank.

This is all facilitated by our updated sustainability governance framework, and our upcoming business and sustainability strategy. Our pledges to have an ESG strategy plan. As we continue on this prosperous era for the bank, we are proud to showcase and report transparently on our sustainability efforts in line with internationally recognized GRI standards. We hope that reporting on our sustainable management efforts will incentivize other financial institutions within Palestine to follow suite.

Over the next phase, we will be introducing a series of additional changes across the bank, which are summarized in the table below.

Our Commitments

Table 34: BOP Sustainability Commitment Table 2021

Commitment Table	
ESG	<ul style="list-style-type: none"> • Introducing a dedicated E&S Officer by 2022 • Including ESG KPIs in our upcoming Strategic Plan (informed by a planning and strategizing workshop with our most senior executives) • Digitalize all sustainability data by 2025
Environmental Responsibility	<ul style="list-style-type: none"> • Introducing the required reporting systems and mechanisms to track energy, fuel, and water consumption rates by 2023 • Setting and achieving reduction targets for the year 2024, including: <ul style="list-style-type: none"> – 30% decrease in carbon emissions – 30% increase in reliance on renewable energy usage – 25% increase in water efficiency – 30% decrease in waste generated from our operations
Product Responsibility	<ul style="list-style-type: none"> • Piloting and mainstreaming a supplier E&S screening mechanism • Piloting and mainstreaming a client/borrower E&S due diligence and screening mechanism by 2024 • Introducing at least 2 new shared value product/service streams by 2023 • Become the largest bank in the country and serve one million customers
Human Resource Management	<ul style="list-style-type: none"> • Conducting a comprehensive gender audit by 2023 • Introducing tailored women's leadership career advancement program by 2024
Social Investment	<ul style="list-style-type: none"> • Launching a social investment strategy that focuses on three priority sectors

Annex 1 – GRI Content IndexThe index below is a reference tool to help readers locate the information they need to make informed decisions about our sustainability performance. The table is organized according to the GRI standards, where each row is used to indicate where to locate information in our sustainability report about a given GRI standard.

For the Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report.



CONTENT INDEX SERVICE

2022

GRI Standard	Disclosure	Our Response	Page number	Omission
Universal Standards				
GRI 101	Foundation 2016	This report was created in accordance with GRI Standards. Our management approach and materiality methodology are both addressed in detail in the following standards.	This report.	
GRI 102: General Disclosures 2016				
GRI 102-1	Name of the organization	Bank of Palestine	NA	
GRI 102-2	Activities, brands, products, and services	The bank offers many banking services, including current and savings accounts, deposits, loans and various credit facilities, credit and debit cards, and transfers, to name a few. Refer to the section titled "About Bank of Palestine" in this report for a brief overview. Detailed accounts are available throughout the report.	Pages: 61-67	
GRI 102-3	Location of headquarters	BOP is headquartered in Ramallah, Palestine. The bank also has extensive administrative presence in Gaza City, Palestine. Our Gaza facility functioned as our initial headquarters until we moved to Ramallah.	NA	
GRI 102-4	Location of operations	BOP has operations in all Palestinian governorates in the West Bank and Gaza Strip. We also operate two representative offices in the UAE and Chile, but our operations in these countries do yield material ESG impacts. Refer to the section titled "About this Report" for a brief overview.	Pages: 9-13, 68-69	
GRI 102-5	Ownership and legal form	BOP is a public shareholding company, traded on the Palestine Exchange (PEX). The bank is subject to all banking regulations in Palestine. Refer to the section titled "Ownership & Legal Form" in this report for a brief overview.	Page: 44	
GRI 102-6	Markets served	We provide banking services to private individuals, small businesses, large enterprises, and the public sector throughout Palestine.	Pages: 7-8	
GRI 102-7	Scale of the organization	BOP is the largest and oldest bank in Palestine. It was founded in 1960 and has been the leading bank in Palestine since then. It has the largest branch network and the largest market share in Palestine. Refer to the sections titled "About Bank of Palestine" and "Our Services" in this report for a more detailed account of the scale of our business.	Pages: 11-19; 58-65	
GRI 102-8	Information on employees and other workers	We employ 1750 staff members in the West Bank and Gaza. Refer to the section titled "Our People" in this report for more information about our employees.	Pages: 73-80	

GRI 102-9	Supply chain	The total value of procurement at BOP in 2021 was \$12,388,494. Of these expenditures, 2.5% went to the purchase of local goods. Our purchases in 2021 can also be divided into 22% services and 87% goods. The total purchase orders delivered to any one supplier were always below 10% of our total budget. We do not monitor our suppliers' ESG performance.	NA	
GRI 102-10	Significant changes to the organization and its supply chain	There have been no significant changes to our organization or its supply chain during the reporting period, or between this period and the previous one.	NA	
GRI 102-11	Precautionary principle or approach	The precautionary principle is embedded in our approach to sustainability and risk management. We aim to proactively identify and mitigate risks associated with our activities, products, and services. Our approach is based on the understanding that some risks are impossible to eliminate completely but can be managed to an acceptable level. More information about our approach to risk management is available in the section titled "Managing Risks" in this report. We also discuss our Precautionary Approach in the section of this report titled "Materiality."	Page 41	
GRI 102-12	External initiatives	We are a signatory of the United Nations Global Compact, and we support the ten principles of the Global Compact in the areas of human rights, labor, environment, and anti-corruption. We have also adopted several guidelines for responsible financing which we discuss throughout the report.	NA	
GRI 102-13	Memberships in associations	BOP is a member of several associations. Related details are discussed in the section titled "Memberships & Associations" in this report.	Page: 38	
GRI 102-14	Statement from senior decision-maker	Statements from both our chairman and the head of our sustainability committee are published in this report. They provide an overview of our business activities and performance as well as a discussion of some of the challenges we faced during the reporting period.	Page 7-10	
GRI 102-15	Key impacts, risks, and opportunities	This is discussed in detail in the sections of this report titled "Our Sustainability Approach"	Pages: 26-37	
GRI 102-16	Values, principles, standards, and norms of behavior	BOP is committed to the highest standards of ethical conduct. We have adopted a code of conduct and a set of corporate values which all our directors, managers, and employees are expected to follow. More details are available in the section of this report titled "Our Mandate."	Pages: 21; 42-44	

GRI 102-17	Mechanisms for advice and concerns about ethics	We have several mechanisms in place for employees to raise concerns about ethical issues. These include an anonymous hotline and a confidential e-mail address. We have also adopted a code of conduct which sets out the expectations for ethical behavior. More information can be found in the sections of this report titled "Governing Growth & Success."	Pages: 40-56	
GRI 102-18	Governance structure	BOP is a public shareholding company. The Board of Directors is the highest authority in the bank, and it is responsible for guiding the bank and practicing oversight over its management. We disclose and discuss all details related to our governance system in the chapter titled "Governing Growth & Success" in the report.	Pages: 40-56	
GRI 102-22	Composition of the highest governance body and its committees	Refer to the discussion on "The Board of Directors," in the section titled "Governing Growth & Success" in this report for more detail.	Pages: 45-51	
GRI 102-23	Chair of the highest governance body	Refer to the discussion on "The Board of Directors," in the section titled "Governing Growth & Success" in this report for more detail.	Pages: 45-51	
GRI 102-25	Conflicts of interest	Our bylaws include provisions to manage conflicts of interest. We have also adopted a policy on related party transactions. Refer to the section titled "Transparency & Accountability within BOP" in this report for more detail.	Pages: 52-54	
GRI 102-30	Effectiveness of risk management processes	We have a risk management system in place which is designed to identify, assess, and manage risks. We discuss this system in detail in the section titled "Governing Growth & Success."	Pages: 40-56	
GRI 102-32	Highest governance body's role in sustainability reporting	The board follows the development of our sustainability reports through the Sustainability Committee. The board also reviewed this report and approved its release to the public.	NA	
GRI 102-33	Communicating Critical Concerns	We have mechanisms in place for employees and managers to raise all concerns. We also have solid two-way communication channels to communicate with our shareholders. In addition, we have robust compliance and auditing functions. More information can be found in the section titled "Governing Growth & Success" that discusses our governance system and our communication with our shareholders. Also see also see the discussion on our stakeholder engagement approaches.	Pages: 28; 31-37; 40-56	
GRI 102-35	Remuneration Policies	BOP's Board of Directors adopts a transparent policy on the remuneration of its members. This policy is discussed in detail in the section titled "Governing Growth & Success."	Pages: 55	

GRI 102-36	Process for determining remuneration	Our process for determining remuneration is set by our bylaws in consultation with our shareholders. Our directors are entitled collectively to a bonus of 5% of the net profits of the bank. They generally opt to receive less than half this ratio. More information can be found in the section titled "Governing Growth & Success."	Pages: 55	
GRI 102-37	Stakeholders' involvement in remuneration	With the exception of our shareholders, our stakeholders are not involved in our remuneration system.	NA	
GRI 102-40	List of stakeholder groups	A detailed list is included in the section titled "Stakeholders" in this report.	Pages: 15; 18-22	
GRI 102-41	Collective bargaining agreements	Currently, we do not have collective bargaining agreements to report on.	NA	
GRI 102-42	Identifying and selecting stakeholders	We deploy several processes to identify and engage our stakeholders. We discuss all details related to our stakeholder management system in the section titled "Stakeholders" in this report.	Pages: 31-37	
GRI 102-43	Approach to stakeholder engagement	We engage our stakeholders using a participatory and transparent approach. We discuss all details related to our stakeholder engagement system in the section titled "Stakeholders."	Pages: 33-37	
GRI 102-44	Key topics and concerns raised	We discuss this in detail in the section on "Materiality" in this report.	Pages: 30-31	
GRI 102-45	Entities included in the consolidated financial statements	This is discussed in detail in our Audited Financial Report.	Page: 106	
GRI 102-46	Defining report content and topic Boundaries	We have adopted a systematic and structured approach to defining the content of our sustainability report. We discuss this approach in detail in the section of our report titled "About this Report."	Pages: 22-24	
GRI 102-47	List of material topics	A list of material topics is included in the section on "Materiality" in this report.	Page 31	
GRI 102-48	Restatements of information	None. This is our first report. We do not have reporting periods, measurement methods or definitions to disclose.	NA	
GRI 102-49	Changes in reporting	None. This is our first report.	NA	
GRI 102-50	Reporting period	This report covers the period from January 1, 2021 to December 31, 2021. For more details please refer to the section titled "About this Report."	Pages: 22-24	
GRI 102-51	Date of most recent report	None. This is our first report.	Pages: 22-24	
GRI 102-52	Reporting cycle	We plan to issue similar reports on a biannual basis. For more details, please refer to the section titled "About this Report."	Pages: 22-24	

GRI 102-53	Contact point for questions regarding the report	The points of contact for this report are our Chief Sustainability Officer, Mr. Kamel Husseini, and our Head of the Sustainable Banking Department, Ms. Hiba Tantash. They can be reached at: kamel.husseini@bankofpalestine.com Hiba.Tantash@bankofpalestine.com. BOP looks forward to receiving feedback on this report from any and all interested stakeholders.	Page 25	
GRI 102-54	Claims of reporting in accordance with GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.	NA	
GRI 102-55	GRI content index	Our GRI Content Index is included at the end of this report.	This table	
GRI 102-56	External assurance	BOP has been focused on integrating and improving its sustainability management system and disclosure practice which has not given us the opportunity to formulate a process to verify and audit the content of our sustainability reports. We plan to seek independent review and assurance for our reports at the beginning of our second or third reporting cycle. The board of directors and senior management have approved the final content of this report.	Page 25	
GRI 103: Management Approach 2016 (GRI 201, GRI 202, GRI 203, GRI 204, GRI 205, GRI 206, GRI 207, GRI 302, GRI 303, GRI 305, GRI 306, GRI 307, GRI 401, GRI 402, GRI 403, GRI 404, GRI 405, GRI 406, GRI 407, GRI 408, GRI 409, GRI 412, GRI 413, GRI 415, and GRI 418)				
GRI 103-1	Explanation of material topic and its boundaries	Material topics and the process for their determination are defined in the section labeled "materiality" and "identifying material topics," respectively.	Pages: 30-31	
GRI 103-2:	The management approach and its components	We discuss our management approach, strategy, relevant materiality issues, and stakeholder consultation mechanisms in detail in the section titled "Our Sustainability Approach."	Pages: 25-31	
GRI 103-3	Evaluation of the management approach	We have developed a sustainability governance system, with components at the board and executive levels. We have also developed new sustainability strategy formulation and reporting mechanisms. These mechanisms are designed to continuously monitor and evaluate our management approach and to tailor our sustainability strategy according. The sections titled "Sustainability governance at BOP," and "Sustainability Strategy" describe these mechanisms in detail.	Pages: 25-31	
GRI 200: Economic				
GRI 201: Economic Performance 2016				
GRI 201-1	Direct economic value generated and distributed	We distribute the economic value that we generate (mainly in interest revenues and fees) through operating costs, wages and benefits, taxes to the Palestinian government, payments to providers of capital, community investment, purchases from the community, and working capital. Our audited financial report and statement provides detailed information on the economic value generated and distributed by BOP. This report is available on our website and is also available as an annex to our annual report.	Audited Financial Report Page 106	

GRI 201-2	Financial implications and other risks and opportunities due to climate change	Efforts and opportunities to adapt to climate change are included in the Green Lending sub-section of the report.	Page 86	Information about the financial implications and risks of climate change is currently unavailable. Efforts are in place to create a feasible timeframe for their calculation.
GRI 201-3	Defined benefit plan obligations and other retirement plans		Page 75-77	Confidentiality constraints. We are unable to disclose this information at the Bank level at this moment in time.
GRI 201-4	Financial assistance received from government	We have not received any financial assistance from the government during the reporting period.	NA	
GRI 202: Market Presence 2016				
GRI 202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Standard entry level wages are above the national minimum wage, which is set at around USD 400.		
GRI 202-2	Proportion of senior management hired from the local community	All of our senior managers are from the local community.		
GRI 203: Indirect Economic Impacts 2016				

GRI 203-1	Infrastructure investments and services supported	No significant infrastructure investments were directly made during the reporting period.		Information about the impact of our products on national infrastructure is not currently being calculated but will be aggregated by the next reporting cycle.
GRI 203-2	Significant indirect economic impacts	We produce indirect economic impacts through the provision of our services and through our supply chain, our employee spending, and the taxes we pay to the Palestinian government. We discuss these matters in detail in the report.	57-69 and throughout this report.	
GRI 204: Procurement Practices 2016				
GRI 204-1	Proportion of spending on local suppliers		NA	Information about proportion of spending on local suppliers is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 205: Anti-Corruption 2016				
GRI 205-1	Operations assessed for risks related to corruption	Our compliance and auditing departments continuously assess our operations for risks related to corruption. No such risks have been observed or reported during the reporting period.	NA	
GRI 205-2	Communication and training on anti-corruption policies and procedures	Our code of conduct has been shared with all employees and contractors, and we have an anti-corruption policy in place. Employees receive training on these policies and procedures on an annual basis.	NA	

GRI 205-3	Confirmed incidents of corruption and actions taken	No such incidents were confirmed during the reporting period.	NA	
GRI 206: Anti-competitive Behavior 2016				
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	None.	Page 65. Audited Financial Report Page 106	
GRI 207: Tax 2019				
GRI 207-1	Approach to Tax		Audited Financial Report Page 106	
GRI 207-2	Tax governance, control, and risk management		Audited Financial Report Page 106	
GRI 300: Environment				
GRI 302: Energy 2016				
GRI 302-1	Energy consumption within the organization		NA	Information about energy consumption within the organization is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 302-3	Energy intensity		NA	Information about energy intensity within the organization is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.

GRI 302-4	Reduction of energy consumption	Efforts made to reduce consumption are listed in the "Reducing our Direct Environmental Footprint" sub-section of the report.	Pages: 89-90	Information about the amount of energy reduced as a result of these effort is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 303: Water and Effluents 2018				
GRI 303-1	Total water withdrawal by source		NA	Information about water withdrawal is currently unavailable. A team was formed to start tracking this data and report on it by our next .reporting cycle
GRI 303-2	Water sources significantly affected by withdrawal of water		NA	Not applicable. None of our operations significantly impact water sources.
GRI 303-3	Water recycled and reused		NA	Information about water savings is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.

GRI 305: Emissions 2016				
GRI 305-1	Direct GHG Emissions		NA	Information about direct GHG emissions currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 305-2	Energy indirect (Scope 2) GHG emissions		NA	Information about indirect GHG emissions currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 306: Waste 2020				
GRI 306-1	Waste generation and significant waste-related impacts		NA	Not applicable. We only produce municipal waste.
GRI 306-2	Waste by type and disposal method	We currently do not monitor this data. We plan to start tracking this data in our next reporting cycle.	NA	Information about Waste is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 307: Environmental Compliance 2016				
GRI 307-1	Non-compliance with environmental laws and regulations	We have not received any notice of non-compliance with environmental laws and regulations during the reporting period.	NA	
GRI 400: Social 2016				
GRI 401: Employment 2016				
GRI 401-1	New employee hires and employee turnover	Details of our new hires disaggregated by gender and age are presented in the section on "Our People" in this report.	Pages: 73-80	
GRI 401-2	Benefits provided to full-time employees that are not provided to parttime employees	Benefits provided to full-time employees are presented in the section on "Our People" in this report. Part-time employees are not entitled to receive these benefits.	Pages: 73-80	

GRI 401-3	Parental leave	We offer our parental leaves to both male and female employees. Details are presented in the section on "Our People" in this report.	Pages: 73-80	
GRI 402: Labor/Management Relations 2016				
402-1	Minimum notice periods regarding operational changes	Two weeks.		
GRI 403: Occupational Health and Safety 2018				
GRI 403-1	Workers representation in formal joint management– worker health and safety committees	Workers are not currently represented in such committees; their materiality and formation will be considered by the next reporting cycle.	NA	
GRI 403-2	Types and rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities	There have been no fatalities.	NA	Information about injuries, occupational diseases, lost days and absenteeism is currently unavailable. A team was formed to start tracking this data and report on it by our next reporting cycle.
GRI 403-3	Workers with high incidence or high risk of diseases related to their occupation	We do not have jobs that will subject our workers to high incidence or high risk of diseases related to their occupation.	NA	
GRI 403-4	Health and safety topics covered in formal agreements with trade unions	We do not have formal agreements with trade unions	NA	
GRI 404: Training and Education 2016				
GRI 404-1	Average hours of training per year per employee	Details of our training processes are presented in the section on "Our People" in this report.	Pages: 73-80	
GRI 404-2	Programs for up-grading skills and transition assistance programs	We do not have such programs.	NA	

GRI 404-3	Percentage of employees receiving regular performance and career development reviews	All employees receive regular performance reviews. Only members of the management receive career development reviews.	NA	
GRI 405: Diversity and Equal Opportunity 2016				
405-1	Diversity of governance bodies and employees		Page: 47; 74-76	
405-2	Ratio of basic salary and remuneration of women to men		Page: 76	
GRI 406: Non-discrimination 2016				
GRI 406-1	Incidents of discrimination and corrective actions taken	We have recorded a few incidents of discrimination during the reporting period, which were addressed immediately. Details are available in the section on "Our People" in this report.	Pages: 74-76	
GRI 407: Freedom of association and collective bargaining 2016				
GRI 407-1	Operations and suppliers in which the right to exercise freedom of association and collective bargaining may be at risk.	At BOP, we encourage all our staff members to express themselves, and we have an open-door policy for complaints. Management encourages staff members to engage and holds periodic meetings with staff and line management.	NA	
GRI 408: Child Labor 2016				
GRI 408-1	Operations and suppliers at significant risk for incidents of child labor	Our line of business and the nature of our supply chain needs do not allow for the recruitment of child labor. There were no such cases observed or reported during the reporting period.	NA	
GRI 409: Forced or Compulsory Labor 2016				
GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Our line of business and the nature of our supply chain needs do not allow for the utilization of forced or compulsory labor. There were no such cases observed or reported during the reporting period.	NA	

GRI 412: Human Rights Assessments 2016				
GRI 412-1	Operations that have been subject to human rights reviews or impact assessments	As signatories of the UNGC, our operations have not been subject to any human rights reviews or impact assessments during the reporting period. We plan to conduct such an exercise in the next reporting period.	NA	
GRI 413: Local Communities 2016				
GRI 413-2	Operations with significant actual and potential negative impacts on local communities	We have not observed such impacts during the reporting period.	NA	
GRI 415: Public Policy 2016				
GRI 415-1	Political contributions	We do not engage in political contributions.	NA	
GRI 418: Customer Privacy 2016				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	We did not record any substantiated complaints concerning breaches of customer privacy and losses of customer data during the reporting period.	NA	

BANK OF PALESTINE P.L.C

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Adequacy of provision of expected credit losses for credit facilities and Islamic financing	
<p>Key audit matter</p> <p>This is considered as a key audit matter as the Management exercises significant judgement to determine when and how to record expected credit losses (ECL).</p> <p>Direct credit facilities and Islamic financing form a major portion of the Banks' assets, there is a risk that inappropriate expected credit losses are booked, whether from the use of inaccurate underlying data, or the use of unreasonable assumptions. Due to the significance of the judgments used in classifying direct credit facilities and Islamic financing into various stages according to IFRS 9 and determining related ECL requirements, this audit area is considered a key audit matter.</p> <p>The Coronavirus (COVID-19) pandemic has affected the expected credit losses calculation process. Therefore, during 2021 and 2020 the Bank adjusted the microeconomic factors and allocated more weight to the worst-case scenarios during the years 2021 and 2020.</p> <p>As at December 31, 2021, the Bank's gross direct credit facilities and Islamic financing amounted to U.S. \$ 3,645,076,092 and the provision of expected credit losses amounted to U.S. \$ 169,770,971.</p> <p>The policy for the provision of expected credit losses is presented in the accounting policies adopted for the preparation of these consolidated financial statements in note (3).</p>	<p>How the key audit matter was addressed in the audit</p> <p>Our audit procedures included assessing the controls on procedures for granting, recording and monitoring credit facilities and financing, and the process of measuring ECL, including the requirements of Palestine Monetary Authority (PMA) to verify the effectiveness of the main controls in place, which determine the impairment in direct credit facilities and Islamic financing, and required provisions against them.</p> <p>In addition, our audit procedures included the following:</p> <ul style="list-style-type: none"> - We gained an understanding of the Bank's key direct credit facilities and Islamic financing processes, in addition to examination of internal controls system of granting, booking, and evaluating the effectiveness of the main procedures followed in the granting and booking processes. - We studied and understood the Bank's policy in calculating provisions in comparison with the requirements of IFRS 9 and the relevant regulatory guidelines and instructions. - We evaluated the Bank's expected credit losses model, with special emphasis on alignment with the expected credit losses model and the basic methodology within the requirements of IFRS 9. <p>We have studied a sample of direct credit facilities and Islamic financing individually, and carried out the following procedures to assess the following:</p> <ul style="list-style-type: none"> - The appropriateness of staging. - The appropriateness of the process of determining exposure at default, including consideration of the cash flows resulting from repayment and the resulting calculations. - The appropriateness of the probability of default, and the exposure at default and the loss given default for the different stages. - Validity and accuracy of the model used in the process of calculating expected credit losses.

	<ul style="list-style-type: none"> – Assessing the appropriateness of the Bank's estimation process for an increase in credit risks and the basis for transferring credit exposure between stages, for the exposures that have been transferred between stages, in addition to evaluating the process in terms of appropriate timing to determine the significant increase in credit risk of credit exposures. – Recalculating of the expected credit losses for direct credit facilities and Islamic financing individually, in addition to understanding the latest developments in terms of cash flows and financial position, and if there is any scheduling or structuring. – In relation to the forward-looking assumptions used by the Bank for calculating ECL, we have discussed these assumptions with management and compared these assumptions to available information including the impact of the coronavirus. – Procedures for evaluating collateral in accordance with the evaluation rules approved by the Bank. <p>We evaluated the disclosures to the consolidated financial statements to ensure their compliance with IFRS 9. Accounting policies, significant accounting estimates and judgments, disclosure of credit facilities and Islamic financing and credit risk management are detailed in the notes (3, 8, 47 and 55) to the consolidated financial statements.</p>
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Other information included in the Bank's 2021 Annual Report

Other information consists of the information included in the Bank's 2021 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report; however, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2021 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East
License # 206/2012

Saeed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

March 31, 2022
Ramallah – Palestine

Bank of Palestine P.L.C

Consolidated Statement of Financial Position
As at December 31, 2021

	Note	2021 U.S. \$	2020 U.S. \$
<u>ASSETS</u>			
Cash and balances with Palestine Monetary Authority	5	1,779,579,889	1,323,410,056
Balances at Banks and financial institutions	6	782,230,313	747,858,727
Financial assets at fair value through profit or loss	7	10,253,849	18,735,305
Direct credit facilities and Islamic financing	8	3,453,207,160	3,266,748,588
Financial assets at fair value through other comprehensive income	9	42,255,262	28,559,024
Financial assets at amortized cost	10	228,845,417	205,499,230
Investment in associates and a joint venture	11	9,671,052	5,946,380
Investment properties	12	25,962,178	25,884,919
Property, plant and equipment and right of use assets	13	115,897,814	121,430,377
Projects in progress	14	1,366,792	2,680,297
Intangible assets	15	14,613,893	15,428,395
Other assets	16	44,338,187	47,628,690
Total assets		<u>6,508,221,806</u>	<u>5,809,809,988</u>
<u>LIABILITIES AND EQUITY</u>			
Liabilities			
Palestine Monetary Authority's deposits	17	242,439,107	168,347,302
Banks and financial institutions' deposits	18	120,061,868	82,088,201
Customers' deposits	19	5,013,551,326	4,580,935,374
Cash margins	20	291,588,276	253,088,880
Subordinated loan	21	72,500,000	75,000,000
Loans and borrowings	22	48,442,500	27,636,180
Istidama loans from Palestine Monetary Authority	23	22,307,552	9,134,926
Lease Liabilities	24	31,900,160	33,453,914
Sundry provisions	25	50,983,323	48,851,375
Taxes provisions	26	21,492,314	4,610,652
Other liabilities	27	96,855,951	93,142,513
Total liabilities		<u>6,012,122,377</u>	<u>5,376,289,317</u>
Equity			
Paid-in share capital	1	217,433,527	208,080,000
Additional paid-in capital	28	29,575,688	24,848,415
Statutory reserve	29	61,883,607	56,970,341
Voluntarily reserve	29	246,361	246,361
General Banking risks reserve	29	10,311,877	10,311,877
Pro-cyclicality reserve	29	40,000,000	40,000,000
Fair value reserve	9	(1,692,549)	(4,999,792)
Retained earnings		77,612,532	43,763,159
Total equity holders of the Bank		<u>435,371,043</u>	<u>379,220,361</u>
Non-controlling interests	4	60,728,386	54,300,310
Total equity		<u>496,099,429</u>	<u>433,520,671</u>
Total liabilities and equity		<u>6,508,221,806</u>	<u>5,809,809,988</u>

The accompanying notes from 1 to 57 are an integral part of these consolidated financial statements

Bank of Palestine P.L.C

Consolidated Income Statement
For the year ended December 31, 2021

		2021	2020
	Note	U.S. \$	U.S. \$
Interest income	31	166,252,374	161,289,379
Interest expense	32	(38,906,250)	(42,650,597)
Net interest income		127,346,124	118,638,782
Net financing and investment income	33	50,166,699	35,662,682
Net commissions	34	46,085,241	43,156,485
Net interest, financing, investment and commissions income		223,598,064	197,457,949
Foreign currencies gains		22,094,579	16,745,839
Net gains from financial assets	35	7,951,831	611,729
(Losses)/gains from revaluation of investment properties	12	(285,740)	48,050
Bank's share of results of associates and a joint venture	11	460,415	442,861
Other revenues, net	36	8,429,423	6,941,015
Gross profit before expected credit losses provisions		262,248,572	222,247,443
Provision for expected credit losses on direct credit facilities and Islamic financing and other receivables, net	8&16	(22,768,138)	(38,968,640)
Provision for expected credit losses on investments, and indirect credit facilities and Islamic financing, net	39	(1,846,010)	(489,146)
Gross profit		237,634,424	182,789,657
Expenses			
Personnel expenses	37	(82,172,194)	(73,595,572)
Other operating expenses	38	(50,857,509)	(48,620,126)
Depreciation and amortization	13&15	(17,927,102)	(18,858,916)
Written off credit facilities not previously provided for	8	(2,052,766)	(1,532,623)
Palestine Monetary Authority's fines	40	(20,000)	(22,052)
Total expenses		(153,029,571)	(142,629,289)
Profit before taxes		84,604,853	40,160,368
Taxes expense	26	(28,350,526)	(17,748,220)
Profit for the year		56,254,327	22,412,148
Attributable to:			
Equity holders of the Bank		49,132,664	19,881,004
Non-controlling interests	4	7,121,663	2,531,144
		56,254,327	22,412,148
Basic and diluted earnings per share	42	0.23	0.09

The accompanying notes from 1 to 57 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2021

		2021	2020
	Note	U.S. \$	U.S. \$
Profit for the year		<u>56,254,327</u>	<u>22,412,148</u>
Items of other comprehensive income Items not to be reclassified to the consolidated income statement in subsequent periods:			
Gains/(losses) from revaluation of financial assets through other comprehensive income items		<u>3,845,690</u>	<u>(1,322,007)</u>
Total items that will not be classified to the consolidated income statement		<u>3,845,690</u>	<u>(1,322,007)</u>
Total comprehensive income for the year		<u><u>60,100,017</u></u>	<u><u>21,090,141</u></u>
Attributable to:			
Equity holders of the Bank		52,470,623	18,736,114
Non-controlling Interests	4	<u>7,629,394</u>	<u>2,354,027</u>
		<u><u>60,100,017</u></u>	<u><u>21,090,141</u></u>

Bank of Palestine P.L.C

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

	Reserves							Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
	Paid-in share capital	Additional paid-in capital	Statutory	Voluntarily	General Banking risks	Pro-cyclicality	Fair value				
2021	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	208,080,000	24,848,415	56,970,341	246,361	10,311,877	40,000,000	(4,999,792)	43,763,159	379,220,361	54,300,310	433,520,671
Profit for the year	-	-	-	-	-	-	-	49,132,664	49,132,664	7,121,663	56,254,327
Other comprehensive income	-	-	-	-	-	-	3,337,959	-	3,337,959	507,731	3,845,690
Total comprehensive income for the year	-	-	-	-	-	-	3,337,959	49,132,664	52,470,623	7,629,394	60,100,017
Transfer of fair value reserve from sale of financial assets through other comprehensive income (note 9)	-	-	-	-	-	-	(30,716)	30,716	-	28,286	28,286
Transfers to reserves	-	-	4,913,266	-	-	-	-	(4,913,266)	-	-	-
Increase in the Bank's paid-in capital (note 1&28)	7,272,727	4,727,273	-	-	-	-	-	-	12,000,000	-	12,000,000
Stock dividends (note 30)	2,080,800	-	-	-	-	-	-	(2,080,800)	-	-	-
Cash dividends (note 30)	-	-	-	-	-	-	-	(8,323,200)	(8,323,200)	(1,229,604)	(9,552,804)
Fractions of stocks	-	-	-	-	-	-	-	3,259	3,259	-	3,259
Balance, end of the year	<u>217,433,527</u>	<u>29,575,688</u>	<u>61,883,607</u>	<u>246,361</u>	<u>10,311,877</u>	<u>40,000,000</u>	<u>(1,692,549)</u>	<u>77,612,532</u>	<u>435,371,043</u>	<u>60,728,386</u>	<u>496,099,429</u>

	Reserves							Retained earnings	Equity holders of the Bank	Non-controlling interests	Total equity
	Paid-in share capital	Additional paid-in capital	Statutory	Voluntarily	General Banking risks	Pro-cyclicality	Fair value				
2020	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	204,000,000	24,848,415	54,982,241	246,361	9,749,949	40,000,000	(3,854,902)	46,828,335	376,800,399	53,863,794	430,664,193
Profit for the year	-	-	-	-	-	-	-	19,881,004	19,881,004	2,531,144	22,412,148
Other comprehensive income items	-	-	-	-	-	-	(1,144,890)	-	(1,144,890)	(177,117)	(1,322,007)
Total comprehensive income for the year	-	-	-	-	-	-	(1,144,890)	19,881,004	18,736,114	2,354,027	21,090,141
Transfers to reserves	-	-	1,988,100	-	561,928	-	-	(2,550,028)	-	-	-
Stock dividends (note 30)	4,080,000	-	-	-	-	-	-	(4,080,000)	-	-	-
Cash dividends (note 30)	-	-	-	-	-	-	-	(16,320,000)	(16,320,000)	(1,917,511)	(18,237,511)
Fractions of stocks	-	-	-	-	-	-	-	3,848	3,848	-	3,848
Balance, end of the year	<u>208,080,000</u>	<u>24,848,415</u>	<u>56,970,341</u>	<u>246,361</u>	<u>10,311,877</u>	<u>40,000,000</u>	<u>(4,999,792)</u>	<u>43,763,159</u>	<u>379,220,361</u>	<u>54,300,310</u>	<u>433,520,671</u>

The accompanying notes from 1 to 57 are an integral part of these consolidated financial statements

Bank of Palestine P.L.C

Consolidated Statement of Cash Flows
For the year ended December 31, 2021

	Note	2021 U.S. \$	2020 U.S. \$
<u>Operating activities</u>			
Profit for the year before taxes		84,604,853	40,160,368
Adjustments for:			
Depreciation and amortization		17,927,102	18,858,916
Net gains from financial assets		(7,951,831)	(611,729)
Provision for expected credit losses on credit facilities, investments, and other receivables, net		24,614,148	39,457,786
Losses/(Gains) from revaluation of deposits at below market interest rate		1,428,011	(1,428,011)
(Gains)/losses from modification arising from Islamic financing of a subsidiary		(3,364,410)	3,364,410
Accrued finance cost on lease liabilities		958,455	1,011,795
Impairment on projects in progress		1,056,516	-
Sundry provisions		10,133,706	5,982,147
Losses/(gains) from revaluation of investment properties		285,740	(48,050)
Bank's share of results of associates and a joint venture		(460,415)	(442,861)
Written off credit facilities not previously provided for		2,052,766	1,532,623
Losses on disposal of property, plant and equipment		299,475	1,119
Other non-cash items		(1,910,880)	915,298
		<u>129,673,236</u>	<u>108,753,811</u>
Changes in assets and liabilities:			
Direct credit facilities and Islamic financing		(208,000,264)	(327,313,987)
Statutory cash reserve		(13,860,295)	(33,417,361)
Other assets		2,990,503	12,136,262
Customers' deposits		432,615,952	708,949,293
Istidama loans from Palestine Monetary Authority		13,172,626	9,134,926
Cash margins		38,499,396	9,490,943
Other liabilities		4,698,282	16,625,073
		<u>399,789,436</u>	<u>504,358,960</u>
Net cash flows from operating activities before taxes and paid provisions		(11,468,864)	(14,558,687)
Taxes paid		(8,001,758)	(4,107,116)
Sundry provision, paid		<u>380,318,814</u>	<u>485,693,157</u>
Net cash flows from operating activities			
<u>Investing activities:</u>			
Purchase of financial assets at fair value through profit or loss and through other comprehensive income		(14,481,474)	(1,869,358)
Purchase of financial assets at amortized cost		(73,609,903)	(72,077,957)
Sale of financial assets at fair value through profit or loss and through other comprehensive income		18,595,044	-
Matured financial assets		51,285,668	109,383,656
Deposits at Banks and financial institutions maturing in more than three months		(3,832,158)	4,954,104
Restricted balances of withdrawal		(7,567,173)	(3,745,004)
Palestine monetary authority deposits for a period more than three months		86,627,310	-
Banks and financial institutions' deposits maturing in more than three months		2,000,000	-
Deposits at Islamic Banks maturing in more than three months		1,062,368	(552,854)
Commission on investments management		(693,134)	(457,058)
Stock dividends received		3,906,474	1,471,545
Investments in associates and a joint venture		(4,000,000)	-
Intangible assets		(1,300,903)	(2,117,795)
Projects in progress		(1,644,400)	(5,753,272)
Purchase of investment properties		-	(159,000)
Purchase of property, plant and equipment		(6,541,977)	(4,907,468)
Sale of property, plant and equipment		199,635	216,172
Net cash flows from investing activities		<u>50,005,377</u>	<u>24,385,711</u>
<u>Financing activities:</u>			
Lease liabilities paid		(4,794,691)	(4,264,138)
Subordinated loan payment		(2,500,000)	-
Cash dividends paid		(10,550,581)	(17,457,248)
Increase in the Bank's paid-in capital		12,000,000	-
Loans and borrowings		20,806,320	23,947,092
Fractions of stock dividends sold		3,259	3,848
		<u>14,964,307</u>	<u>2,229,554</u>
Net cash flows from financing activities		445,288,498	512,308,422
Increase in cash and cash equivalents		1,342,579,767	830,271,345
Cash and cash equivalents, beginning of the year		<u>1,787,868,265</u>	<u>1,342,579,767</u>
Cash and cash equivalents, end of the year	41	<u>52,230,778</u>	<u>53,734,014</u>
Interest expense paid		229,728,043	214,223,923
Interest revenue received			

The accompanying notes from 1 to 57 are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements
December 31, 2021

1. General

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

Following the decision of the extraordinary general assembly during its meeting held on March 29, 2018, the Bank's authorized capital was increased from 200 million shares to 250 million shares at U.S. \$ 1 par value per share from. During its ordinary meeting held on March 26, 2020, the general assembly approved increasing the Bank's paid-in share capital by U.S. \$ 4,080,000 through stock dividends. During its ordinary meeting held on March 31, 2021, the general assembly approved increasing the Bank's paid-in share capital by U.S. \$ 2,080,800 through stock dividends.

In addition, the Bank signed an agreement during 2021 with French Proparco Corporation, in which the French Development Agency (FISEA), will invest an amount of U.S. \$ 7,272,727 in the Bank through a special issue of shares, bringing the paid-in share capital of the Bank to U. S. \$ 217,433,527 and U.S. \$ 208,080,000 as at December 31, 2021 and December 31, 2020, respectively.

The Bank carries out all of its Banking activities which include opening current account, letter of credit, accepting deposits and lending money through its (29) branches and (43) offices located in Palestine and an electronic office. In addition, PMA authorized the opening of two representation offices; one in Dubai, United Arab Emirates and another in Chile. The number of branches of Arab Islamic Bank (a subsidiary) is (21) branches in addition to (6) offices and a mobile office.

The Bank's personnel (head quarter and branches) reached (1,745) and (1,749) as at December 31, 2021 and 2020, respectively. The number of employees of the subsidiaries are (685) and (693) as at December 31, 2021 and 2020, respectively.

The consolidated financial statements were authorized for issuance by the Bank's Board of Directors during their meeting number (392) dated 27 February 2022.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at December 31, 2021.

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

	Country of incorporation and operations	Ownership %		Subscribed capital U.S. \$	
		2021	2020	2021	2020
Arab Islamic Bank*	Palestine	52.06	52.06	91,719,252	88,469,252
Al-Wasata Company	Palestine	100	100	5,000,000	5,000,000
PalPay Company**	Palestine	85	85	1,500,000	1,500,000
2000 Company	Palestine	100	100	100,000	100,000

* The Ordinary General Assembly of the Arab Islamic Bank, in its meeting held on March 17, 2021, decided to capitalize the amount of \$3,250,000 from retained earnings and add it to the capital and distribute it as free shares to shareholders.

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

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

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

3. Accounting Policies

3.1 Basis of preparation

The consolidated financial statements as at December 31, 2021 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). 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 and financial assets at fair value through other comprehensive income 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, 2021. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the subsidiaries.

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

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

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

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

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

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

3.3 Changes in accounting policies

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

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

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

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- The exemptions require the Bank to amend the definitions used in documenting the hedging operations and describing the hedging instrument with the continuation of the hedging relationship of the Bank when replacing the reference used to determine the current interest rate with the reference.
- The Bank may use a contractually unspecified interest rate, to hedge the risk of changes in fair value or interest rates if the interest rate risks are identified separately.

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

COVID-19- related rent reductions or deferrals - after 30 June 2021 - Amendments to IFRS 16

On May 28, 2020, the International Accounting Standards Board issued rent reductions or deferrals related to the COVID-19 pandemic- Amendments to International Financial Reporting Standard No.16. These amendments granted exemptions to lessees from applying the requirements of IFRS 16 on lease accounting amendments to lease reductions or postponements resulting directly from the COVID-19 pandemic. As it is a feasible solution, the lessee may choose not to assess whether the COVID-19-related rent reductions or deferrals granted by the lessor constitutes an amendment to the lease agreement. A lessee making this selection will account for a change in rent payments resulting from rent reductions or deferrals related to the COVID-19 pandemic in the same way as a change under IFRS 16, if the change does not constitute an amendment to the lease.

The amendment was supposed to apply until June 30, 2021, but due to the continuing impact of the COVID-19 pandemic, on March 31, 2021 the IASB extended the practical application period to June 30, 2022.

These amendments apply to annual periods beginning on April 1, 2021.

The Bank has not received rental discounts or deferrals related to the COVID-19 pandemic.

International Financial Reporting Standards 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:

Reference to the conceptual framework - Amendments to IFRS 3

During May 2020, the International Accounting Standards Board issued amendments to IFRS 3 Business Combinations - a reference to the conceptual framework. These amendments are replaced with the reference to the conceptual framework for the preparation and presentation of financial statements, which was issued in 1989, and with reference to the conceptual framework for financial reporting, which was issued in March 2018, without fundamental change to the requirements of the conceptual framework.

The Board also added an exception to the principle of recognition of International Financial Reporting Standard No. (3) to avoid the possibility of "Day 2" profits or losses arising for potential liabilities and obligations included within the scope of International Accounting Standard No. (37) or the interpretation of the International Financial Reporting Interpretation Committee No. (21) if incurred separately.

At the same time, the Board decided to clarify the current guidance on IFRS 3 for potential assets that will not be affected by the replacement of the conceptual framework for preparing and presenting financial statements.

These amendments will be applied prospectively from January 1, 2022.

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

Property, plant and equipment: Proceeds from sale before the intended use - Amendments to IAS 16

During May 2020, the International Accounting Standards Board issued amendments to International Accounting Standard No. (16) Property, Plant and Equipment: Proceeds from the sale before the relevant use, which prevents establishments from reducing the cost of property, plant and equipment by the value of the proceeds from the sale of a product produced during the period during the bringing of assets to the site and prepare them for the necessary condition to operate in the intended manner determined by the management. Accordingly, the entity must recognize the proceeds from the sale of these products and the cost of producing them in the consolidated income statement.

The amendments will be applied retroactively from January 1, 2022 to items of property, plant and equipment that started to be used at the beginning of the first financial period presented in the financial year in which the amendments are first applied.

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

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

During May 2020, the International Accounting Standards Board issued amendments to International Accounting Standard No. (37), which specify the costs that the entity must take into consideration when assessing whether the contract is or will result in a loss.

The adjustments apply the "direct cost" method. Direct costs relating to contracts for the sale of goods or services include both incremental costs and allocable costs that are directly related to contract activities. General and administrative expenses are not directly related to contracts and are therefore excluded unless they are charged to the other party under the terms of the contract.

The amendments will be applied as at January 1, 2022. These amendments apply to contracts that have not fulfilled all of their conditions as at the beginning of the fiscal year in which the amendments are applied for the first time.

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

IFRS 9 Financial Instruments – The ‘10%’ test for derecognition of financial liabilities

As part of the improvements to the treatment of IFRS for the years 2018-2020, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that the Bank considers when assessing whether the terms of new or modified financial liabilities are materially different from the terms of the original financial liabilities.

Such fees include only those paid or received by a borrower and lender, including fees paid or received by a borrower or lender on behalf of another.

These amendments will be effective from January 1, 2022, with early application permitted.

The Bank will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the fiscal year in which the Bank applies the amendment.

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

Definition of Accounting Estimates - Amendments to International Accounting Standard No. (8)

In February of 2021, the International Accounting Standards Board issued amendments to IAS 8, providing a definition of "accounting estimates". Adjustments clarify the difference between changes in accounting estimates and changes in accounting policies and corrections of errors. It also describes how organizations use measurement and input techniques to develop accounting estimates.

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

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

Disclosure of Accounting Policies - Amendments to International Accounting Standard No. (1) and Practice Statement No. (2)

In February of 2021, the International Accounting Standards Board issued amendments to IAS (1) and IFRS (2) Practice Statement Making Materiality Judgments, providing guidance and examples to help entities apply materiality to disclosures of accounting policies. The amendments aim to help enterprises provide accounting policy disclosures that are more beneficial by replacing the requirements of enterprises by disclosing their "significant" accounting policies with the requirements for disclosing their "material" accounting policies and adding guidance on how enterprises apply the concept of materiality in making decisions regarding disclosure accounting policy.

The amendments to IAS 1 will be applied for periods beginning on or after January 1, 2023, with early application permitted. Because the amendments to Practice Statement number (2) provide non-mandatory guidance on applying the definition of a material term to accounting policy information, the effective date of these amendments is not necessary.

The Bank is currently evaluating the impact of the amendments to determine their impact on the accounting policy disclosures on the Bank's consolidated financial statements.

3.4 Summary of Significant Accounting Policies

Revenues recognition

The effective interest rate method

According to IFRS (9) Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at Fair value through profit or loss (FVTPL). Interest income on interest bearing financial assets measured at Fair value through other comprehensive income (FVOCI) under IFRS (9).

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

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

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

Interest and similar income and expense

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

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

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

Fee and commission income

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

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

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

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

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

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

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

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

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

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

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

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

Contract balances

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

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

Net trading income

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

Dividend income

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

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

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

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

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

Service and rent revenues

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

Financial Instruments – Initial Recognition

Date of recognition

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

Initial measurement of financial instruments

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

Day 1 profit or loss

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

Measurement categories of financial assets and liabilities

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

- Amortized cost
- FVOCI
- FVTPL

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

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

Financial Assets and Liabilities

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

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

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

The details of these conditions are outlined below:

Business model assessment

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

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

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

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

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

The SPPI test

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

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

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

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

Derivatives recorded at fair value through profit or loss

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

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

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

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

Equity instruments at FVOCI

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

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

Financial assets at fair value through profit or loss

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

Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into consideration any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned 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 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.

The calculation of ECLs

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

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

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|-----|--|
| 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:

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| 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 as it was under IAS (39) and PMA instructions.

Collateral, unless repossessed, is not recorded on the Bank's consolidated statements of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a 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 forbore when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties. Modifications may include extension of payments or agreeing to new financing terms. Classification decisions between Stage (2) and Stage (3) are determined on a case-by-case basis.

Lease Contracts

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

The Bank applies a unified recognition and measurement methodology for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities of lease payments and right-of-use assets representing the right to use the underlying assets.

Operating lease payments are recognized as an expense on a straight-line basis over the useful life of the lease.

Right of use assets

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

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

Lease Liabilities

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

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

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

Short-term leases and leases of low-value assets

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

Government grants

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

Fair value measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants aim to achieve economic benefits.

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

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

Level 1: Using market prices for similar financial instruments in active markets.

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

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

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

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

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

Investment in associates

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

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

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

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

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

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.

Investments properties

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

Impairment of non-financial assets

The Bank assesses at the reporting date whether there is evidence that an asset is impaired. If there is any evidence, or when annual impairment testing is required, the Bank assesses the asset's recoverable amount. The asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Company's assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and reduced to its recoverable amount. In assessing the fair value in use, the future cash flows are discounted to their present fair value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into consideration if they are available. If it is not possible to identify such transactions, the evaluation form is used.

Intangible Assets

A- Goodwill

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

B- Other intangible assets

- Intangible assets that are acquired through a merger are recorded at their fair value at the date of acquisition. Intangible assets that are acquired through a method other than the merger are recorded at cost.

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

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

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

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

Financial derivatives

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

Derivatives held for hedging purposes

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

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

Assets obtained by the Bank by calling on collateral

Assets obtained by the Bank by calling on collateral are stated under "Other assets" at the carrying value of the Bank or fair value of the assets (whichever is lower).

These assets are revaluated individually at the date of the consolidated financial statements at fair value (after deducting sales cost). Any impairment is recorded in the consolidated income statement as a loss. Subsequently, the gain resulted from the appreciation of the assets value is recorded in the consolidated income statement to the extent of the impairment loss previously recorded.

Projects in progress

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

Offsetting

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

Capital cost of issuing or buying the Bank's shares

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

Assets managed on behalf of customers

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

Provisions

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

Taxes provision

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

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

Provision for end of service indemnity

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

Foreign currencies

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

Earnings per share

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

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

Cash and cash equivalents

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

Segments information

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

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

Use of estimates

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

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

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

Legal case provision

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

Provision for employees' benefits

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

Provision for income tax

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

Fair Value of financial instruments

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

Impairment of non-financial assets

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

Determine the lease term for contracts with renewal and termination options

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

Investments' properties

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

Provision for expected credit losses (ECL)

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

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

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

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

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

- **Assessment of significant increase in credit risk (SICR)**

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

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

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

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

- Macroeconomic factors, forward looking information

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

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

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

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

- Definition of default

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

- Expected Life

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

- IFRS (9) governance

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

4. Material Partly 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	2021	2020
		%	%
Arab Islamic Bank	Palestine	47.94	47.94
PalPay	Palestine	15	15

Accumulated balances of material non-controlling interests of the subsidiaries:

	2021	2020
	U.S. \$	U.S. \$
Arab Islamic Bank	60,340,077	53,959,399
PalPay	388,309	340,911
	<u>60,728,386</u>	<u>54,300,310</u>

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

	2021	2020
	U.S. \$	U.S. \$
Arab Islamic Bank	7,074,265	2,518,316
PalPay	47,398	12,828
	<u>7,121,663</u>	<u>2,531,144</u>
Share of non-controlling interest in comprehensive income items	<u>507,731</u>	<u>(177,117)</u>
	<u>7,629,394</u>	<u>2,354,027</u>

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, 2021:

	Arab Islamic Bank	PalPay
	U.S. \$	U.S. \$
Total assets	1,736,706,005	4,707,875
Total liabilities	(1,605,727,500)	(1,720,347)
Total equity	<u>130,978,505</u>	<u>2,987,528</u>
Attributable to:		
Bank's shareholders	70,638,428	2,599,219
Non-controlling interests	<u>60,340,077</u>	<u>388,309</u>
	<u>130,978,505</u>	<u>2,987,528</u>

Summarized statement of financial position information as at December 31, 2020:

	Arab Islamic Bank	PalPay
	U.S. \$	U.S. \$
Total assets	1,557,048,782	3,223,409
Total liabilities	(1,436,805,052)	(915,083)
Total equity	120,243,730	2,308,326
Attributable to:		
Bank's shareholders	66,284,331	1,967,415
Non-controlling interests	53,959,399	340,911
	120,243,730	2,308,326

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

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

Summarized income statement information for the year ended December 31, 2020:

	Arab Islamic Bank	PalPay
	U.S. \$	U.S. \$
Revenues	46,926,705	2,129,938
General and administrative expenses	(32,067,548)	(1,890,030)
Depreciation and amortization	(4,420,371)	(198,801)
Other revenues	525,550	205,496
Profit before tax	10,964,336	246,603
Income tax	(2,950,000)	(98,063)
Profit of the year	8,014,336	148,540
Other comprehensive income items of the year	(334,246)	-
Total comprehensive income of the year	7,680,090	148,540

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

	Arab Islamic Bank	PalPay
	U.S. \$	U.S. \$
Operating activities	7,380,861	1,113,979
Investing activities	(22,483,374)	(499,131)
Financing activities	49,166,435	(46,209)
Increase in cash and cash equivalents	34,063,922	568,639

Summarized statement of cash flows information for the year ended December 31, 2020:

	Arab Islamic Bank	PalPay
	U.S. \$	U.S. \$
Operating activities	(61,087,098)	616,919
Investing activities	(4,784,574)	(358,260)
Financing activities	180,025,035	165,999
Increase in cash and cash equivalents	114,153,363	424,658

5. Cash and balances with Palestine Monetary Authority

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
Cash on hand*	1,204,487,480	808,067,767
Balances with Palestine Monetary Authority:		
Current and On-demand accounts	25,737,190	58,710,122
Swap deposits maturing within 3 months or less	75,246,827	46,191,819
Statutory cash reserve	474,918,296	410,440,348
	1,780,389,793	1,323,410,056
Less: provision for expected credit losses	(809,904)	-
	1,779,579,889	1,323,410,056

* This item includes amounts held by The Palestinian Company for Money and Valuables Transfer (Aman) related to cash shipment and ATM feeding which amounted to U.S. \$ 14,418,921 and U.S. \$ 13,450,421 as at December 31, 2021 and December 31, 2020, respectively.

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

PMA does not pay interest or profits on current accounts.

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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	426,412,319	-	-	426,412,319
Net change during the year	88,929,970	-	-	88,929,970
Balance, end of the year	515,342,289	-	-	515,342,289

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	-	-	-	-
Expected credit losses charges during the year	809,904	-	-	809,904
Balance, end of the year	809,904	-	-	809,904

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	50,150	-	-	50,150
Recovery from expected credit losses on repaid balances	(50,150)	-	-	(50,150)
Balance, end of the year	-	-	-	-

6. Balances at Banks and financial institutions

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
<u>Local Banks and financial institutions:</u>		
Current accounts	356,894	485,479
Swap deposits	10,014,103	-
	10,370,997	485,479
<u>Foreign Banks and financial institutions:</u>		
Current and on-demand accounts	278,497,155	326,802,075
Deposits maturing within 3 months or less	467,507,816	408,122,624
Deposits maturing after 3 months	13,000,000	9,167,842
Swap deposits	10,000,000	-
	769,004,971	744,092,541
<u>Investments at foreign Islamic Banks:</u>		
Investments maturing within 3 months	3,108,626	2,328,036
Investments maturing after 3 months	3,000,000	4,062,368
	6,108,626	6,390,404
Less: provision for expected credit losses	(3,254,281)	(3,109,697)
	782,230,313	747,858,727

Non-interest or profits bearing balances at Banks and financial institutions as at December 31, 2021 and 2020 amounted to U.S.\$ 278,497,155 and U.S.\$ 327,287,554, respectively.

Restricted balances at Banks and financial institutions as at December 31, 2021 and 2020 amounted to U.S. \$ 83,831,814 and U.S. \$ 76,264,641, respectively.

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

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	732,016,418	15,561,602	3,390,404	750,968,424
Net change during the year	34,797,948	-	(281,778)	34,516,170
Transfer to stage (1)	15,561,602	(15,561,602)	-	-
Balance, end of the year	<u>782,375,968</u>	<u>-</u>	<u>3,108,626</u>	<u>785,484,594</u>
2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	394,309,795	872,820	3,390,404	398,573,019
Net change during the year	352,395,405	-	-	352,395,405
Transfer to stage (2)	(14,688,782)	14,688,782	-	-
Balance, end of the year	<u>732,016,418</u>	<u>15,561,602</u>	<u>3,390,404</u>	<u>750,968,424</u>

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

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	702,444	107,253	2,300,000	3,109,697
Expected credit losses charges (Recovery) during the year	(398,058)	-	542,642	144,584
Transfer to stage (1)	107,253	(107,253)	-	-
Balance, end of the year	<u>411,639</u>	<u>-</u>	<u>2,842,642</u>	<u>3,254,281</u>
2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	265,005	1,259	2,300,000	2,566,264
Net (recoveries) of ECL	543,433	-	-	543,433
Transfer to stage (2)	(105,994)	105,994	-	-
Balance, end of the year	<u>702,444</u>	<u>107,253</u>	<u>2,300,000</u>	<u>3,109,697</u>

7. Financial assets at fair value through profit or loss

This item represents the following:

	2021	2020
	U.S. \$	U.S. \$
Shares quoted in Palestine securities exchange	500,922	9,738,538
Shares quoted in Foreign Financial Markets	832,499	638,427
Investments in financial portfolio	3,920,428	3,358,340
Unquoted shares	5,000,000	5,000,000
	<u>10,253,849</u>	<u>18,735,305</u>

8. Direct credit facilities and Islamic financing

This item comprises the following:

	2021 U.S. \$	2020 U.S. \$
<u>Retail</u>		
Loans*	720,602,942	661,711,208
Overdraft accounts	2,171,573	2,136,359
Credit cards	23,032,068	20,019,047
Current overdrafts	59,677,313	59,005,914
Financing	273,043,151	253,958,290
<u>Large corporate, institutions</u>		
Loans *	642,033,599	675,514,387
Overdraft accounts	104,964,392	99,398,220
Credit cards	277,726	194,800
Current overdrafts	5,474,475	4,571,379
Financing	433,649,579	410,384,348
<u>small and medium enterprises</u>		
Loans *	319,503,179	264,553,107
Overdraft accounts	82,092,984	62,658,994
Credit cards	4,862,682	6,480,768
Current overdrafts	6,815,209	5,583,760
Financing	126,669,327	117,815,541
<u>Public sector</u>		
Loans *	367,717,331	345,750,501
Overdraft accounts	280,287,909	279,548,490
Financing	192,200,653	168,588,306
	3,645,076,092	3,437,873,419
Suspended interests, commissions and profits	(22,097,961)	(20,413,098)
provision for expected credit losses	(169,770,971)	(150,711,733)
	<u>3,453,207,160</u>	<u>3,266,748,588</u>

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

	2021 U.S. \$	2020 U.S. \$
Balance, beginning of the year	20,413,098	16,656,102
Suspended interests and profits during the year	7,398,451	8,257,741
Suspended interests and profits transferred to revenues during the year	(3,857,115)	(2,922,628)
Suspended interest and profits related to credit facilities and Islamic financing being default for more than 6 years	(870,825)	(1,367,928)
Suspended interests written off	(976,878)	(140,000)
Currency variance	(8,770)	(70,189)
Balance, end of the year	<u>22,097,961</u>	<u>20,413,098</u>

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	2,303,183,967	947,191,330	187,498,122	3,437,873,419
Net change during the year	87,312,751	129,805,876	(6,473,630)	210,644,997
Transfers to stage (1)	205,108,779	(201,909,966)	(3,198,813)	-
Transfers to stage (2)	(370,248,539)	391,718,460	(21,469,921)	-
Transfers to stage (3)	(15,748,566)	(16,238,630)	31,987,196	-
Written off facilities	-	-	(3,442,324)	(3,442,324)
Balance, end of the year	<u>2,209,608,392</u>	<u>1,250,567,070</u>	<u>184,900,630</u>	<u>3,645,076,092</u>
	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	2,331,693,967	622,012,262	159,917,605	3,113,623,834
Net change during the year	176,718,468	155,343,770	(5,902,084)	326,160,154
Transfers to stage (1)	94,085,232	(88,113,506)	(5,971,726)	-
Transfers to stage (2)	(272,726,483)	281,071,283	(8,344,800)	-
Transfers to stage (3)	(26,587,217)	(23,122,479)	49,709,696	-
Written off facilities	-	-	(1,910,569)	(1,910,569)
Balance, end of the year	<u>2,303,183,967</u>	<u>947,191,330</u>	<u>187,498,122</u>	<u>3,437,873,419</u>

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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	13,077,697	25,252,148	75,252,660	113,582,505
Transfers to stage (1)	1,279,190	(487,036)	(792,154)	-
Transfers to stage (2)	(1,869,700)	2,279,381	(409,681)	-
Transfers to stage (3)	(127,877)	(1,057,062)	1,184,939	-
Expected credit losses during the year	13,635,825	9,954,446	34,221,769	57,812,040
Recovery of expected credit losses during the year	(2,954,819)	(6,789,883)	(9,098,698)	(18,843,400)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	3,381	3,381
Recovery of written off Islamic financing	-	-	(1,996,162)	(1,996,162)
Written off provision against defaulted credit facilities and Islamic financing	-	-	(1,773)	(1,773)
Foreign currency exchange differences	-	-	155,142	155,142
Balance, end of the year	<u>23,040,316</u>	<u>29,151,994</u>	<u>98,519,423</u>	<u>150,711,733</u>

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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	506,217,157	415,408,889	40,629,565	962,255,611
Net change during the year	(12,485,951)	54,613,788	(7,552,630)	34,575,207
Transfers to stage (1)	58,676,348	(57,141,544)	(1,534,804)	-
Transfers to stage (2)	(112,037,340)	116,116,144	(4,078,804)	-
Transfers to stage (3)	(6,991,203)	(8,784,127)	15,775,330	-
Written off facilities	-	-	-	-
Balance, end of the year	<u>433,379,011</u>	<u>520,213,150</u>	<u>43,238,657</u>	<u>996,830,818</u>

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

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

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	3,776,741	22,948,781	18,486,979	45,212,501
Transfers to stage (1)	668,135	(124,413)	(523,440)	20,282
Transfers to stage (2)	(1,063,349)	670,722	(1,496,802)	(1,889,429)
Transfers to stage (3)	(44,300)	(866,244)	910,544	-
Expected credit losses during the year	2,614,225	4,568,836	9,368,247	16,551,308
Recovery of expected credit losses during the year	(1,279,571)	(5,438,355)	(2,471,407)	(9,189,333)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(694,669)	(694,669)
Recovery of written off Islamic financing	-	-	(22,789)	(22,789)
Foreign currency exchange differences	-	-	38,767	38,767
Balance, end of the year	<u>4,671,881</u>	<u>21,759,327</u>	<u>23,595,430</u>	<u>50,026,638</u>

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

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

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	327,653,432	68,645,426	60,912,421	457,211,279
Net change during the year	(11,618,466)	13,270,894	(5,978)	1,646,450
Transfer to stage (1)	15,205,866	(14,538,714)	(667,152)	-
Transfer to stage (2)	(41,210,674)	44,575,911	(3,365,237)	-
Transfer to stage (3)	(7,715,928)	(9,509,805)	17,225,733	-
Written off facilities	-	-	(1,765,559)	(1,765,559)
Balance, end of the year	<u>282,314,230</u>	<u>102,443,712</u>	<u>72,334,228</u>	<u>457,092,170</u>

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:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	3,136,224	2,839,444	36,829,627	42,805,295
Transfer to stage (1)	1,182,893	(718,378)	(464,515)	-
Transfer to stage (2)	(470,186)	1,462,814	(992,628)	-
Transfer to stage (3)	(113,681)	(356,575)	470,256	-
Expected credit losses during the year	1,642,341	3,941,677	15,810,498	21,394,516
Recovery of expected credit losses during the year	(2,111,944)	(1,579,509)	(12,717,993)	(16,409,446)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(2,777,291)	(2,777,291)
Recovery of written off Islamic financing	-	-	(4,059)	(4,059)
Foreign currency exchange differences	-	-	3,755	3,755
Balance, end of the year	<u>3,265,647</u>	<u>5,589,473</u>	<u>36,157,650</u>	<u>45,012,770</u>
	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	2,166,599	1,300,938	25,217,408	28,684,945
Transfer to stage (1)	554,041	(328,550)	(245,773)	(20,282)
Transfer to stage (2)	31,310	859,651	998,468	1,889,429
Transfer to stage (3)	(51,012)	(160,929)	211,941	-
Expected credit losses during the year	2,615,513	1,512,575	15,680,037	19,808,125
Recovery of expected credit losses during the year	(2,180,227)	(344,241)	(4,049,996)	(6,574,464)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(1,069,572)	(1,069,572)
Recovery of written off Islamic financing	-	-	(10,572)	(10,572)
Written off provision against defaulted credit facilities and Islamic financing	-	-	(1,773)	(1,773)
Foreign currency exchange differences	-	-	99,459	99,459
Balance, end of the year	<u>3,136,224</u>	<u>2,839,444</u>	<u>36,829,627</u>	<u>42,805,295</u>

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	793,603,429	324,534,468	71,925,237	1,190,063,134
Net change during the year	(106,654,170)	97,961,179	5,063,054	(3,629,937)
Transfer to stage (1)	103,134,338	(103,016,505)	(117,833)	-
Transfer to stage (2)	(159,079,604)	172,047,045	(12,967,441)	-
Transfer to stage (3)	(5,920,638)	(4,874,291)	10,794,929	-
Written off facilities	-	-	(33,426)	(33,426)
Balance, end of the year	<u>625,083,355</u>	<u>486,651,896</u>	<u>74,664,520</u>	<u>1,186,399,771</u>

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	926,399,302	134,593,537	64,833,029	1,125,825,868
Net change during the year	(21,640,336)	90,823,496	(4,706,762)	64,476,398
Transfer to stage (1)	20,203,018	(16,433,248)	(3,769,770)	-
Transfer to stage (2)	(119,478,469)	120,379,230	(900,761)	-
Transfer to stage (3)	(11,880,086)	(4,828,547)	16,708,633	-
Written off facilities	-	-	(239,132)	(239,132)
Balance, end of the year	<u>793,603,429</u>	<u>324,534,468</u>	<u>71,925,237</u>	<u>1,190,063,134</u>

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

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

	2020			
	Stage (1) U.S. \$	Stage (2) U.S. \$	Stage (3) U.S. \$	Total U.S. \$
Balance, beginning of the year	1,273,003	1,002,428	31,553,276	33,828,707
Transfer to stage (1)	57,015	(34,075)	(22,940)	-
Transfer to stage (2)	(837,661)	749,008	88,653	-
Transfer to stage (3)	(32,565)	(29,889)	62,454	-
Expected credit losses during the year	1,814,270	3,873,038	9,168,485	14,855,793
Recovery of expected credit losses during the year	504,979	(1,007,287)	(2,577,297)	(3,079,605)
Write off for defaulted direct credit facilities and Islamic financing provisions for more than 6 years	-	-	(142,948)	(142,948)
Recovery of written off Islamic financing	-	-	(52,232)	(52,232)
Foreign currency exchange differences	-	-	16,915	16,915
Balance, end of the year	<u>2,779,041</u>	<u>4,553,223</u>	<u>38,094,366</u>	<u>45,426,630</u>

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

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

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	568,331,076	-	-	568,331,076
Net change during the year	225,556,221	-	-	225,556,221
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Written off facilities	-	-	-	-
Balance, end of the year	<u>793,887,297</u>	<u>-</u>	<u>-</u>	<u>793,887,297</u>

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

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	12,453,170	-	-	12,453,170
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Expected credit losses during the year	<u>1,320,377</u>	<u>-</u>	<u>-</u>	<u>1,320,377</u>
Balance, end of the year	<u>13,773,547</u>	<u>-</u>	<u>-</u>	<u>13,773,547</u>

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	5,856,355	-	-	5,856,355
Transfer to stage (1)	-	-	-	-
Transfer to stage (2)	-	-	-	-
Transfer to stage (3)	-	-	-	-
Expected credit losses during the year	<u>6,596,815</u>	<u>-</u>	<u>-</u>	<u>6,596,815</u>
Balance, end of the year	<u>12,453,170</u>	<u>-</u>	<u>-</u>	<u>12,453,170</u>

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:

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	15,478,580	13,845,732
Additions	3,442,324	1,996,162
Recovered provision during the year	(276,767)	(320,698)
written off provision	(99,170)	(15,767)
Currency variances	2,649	(26,849)
Balance, end of the year	<u>18,547,616</u>	<u>15,478,580</u>

The recoveries of defaulted credit facilities and Islamic financing included in stage (3) as at December 31, 2021 and 2020 amounted to \$26,818,549 and \$ 9,098,698, respectively.

- Loans are presented net of their related interest and commission received in advance which amounted to U.S. \$ 4,655,044 and U.S. \$ 1,997,074 as at December 31, 2021 and 2020, respectively. In addition, direct Islamic financing presented net of unearned profits amounted to U.S. \$ 96,181,501 and U.S. \$ 92,360,279 as at December 31, 2021 and 2020.
- Non-performing direct credit facilities and Islamic financing net of suspended interest, commissions and profits according to PMA regulations as at December 31, 2021 and 2020 amounted to U.S. \$261,395,641 and U.S. \$ 249,644,829 representing (7.21%) and (7.30%) 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, 2021 and 2020 amounted to U.S. \$ 162,802,655 and U.S. \$ 167,085,022 representing (4.49%) and (4.89%) of direct credit facilities and Islamic financing net of suspended interests, commissions and profits, respectively.
- According to PMA instructions number (1/2008), defaulted credit facilities and Islamic financing for more than 6 years were excluded from the Bank's consolidated financial statements. These defaulted credit facilities and Islamic financing amounted to U.S. \$ 33,792,338 and U.S. \$ 29,336,902 as at December 31, 2021 and 2020 and the balance of impairment provision and suspended interest and profits for defaulted accounts amounted to U.S. \$ 31,871,290 and U.S. \$ 28,055,393, respectively.
- Direct credit facilities and Islamic financing granted to the public sector as at December 31, 2021 and 2020 amounted to U.S. \$ 840,205,893 and U.S. \$ 793,887,297 representing (23.05%) and (23.09%) of gross direct credit facilities and Islamic financing, respectively.
- Direct credit facilities and Islamic financing guaranteed by Palestine National Authority as at December 31, 2021 and 2020 amounted to U.S. \$ 27,940,226 and U.S. \$ 38,116,819 representing (0.77%) and (1.11%) 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. \$ 1,299,618,818 and U.S. \$ 1,236,098,141 as at December 31, 2021 and 2020, respectively.
- Credit facilities and Islamic financing granted to non-residents amounted to U.S. \$ 13,830,380 and U.S. \$ 16,610,904 as at December 31, 2021 and 2020, respectively.
- Credit facilities and Islamic financing were written-off during the year that weren't provided before amounted to U.S. \$ 2,052,766 and U.S. \$ 1,532,623 as at December 31, 2021 and 2020, respectively.

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

	2021	2020
	U.S. \$	U.S. \$
Manufacturing	179,248,966	159,632,413
Services sector	375,969,549	431,912,211
Retail and wholesale	585,953,294	485,736,373
Real estate and construction	796,287,072	753,622,832
Transportation	14,949,487	15,718,522
Agricultural	47,374,979	51,255,021
Tourism	40,025,059	33,887,589
Financial sector	22,854,629	26,553,640
Public sector	840,205,893	793,887,297
Consumer commodities	720,109,203	665,254,423
	<u>3,622,978,131</u>	<u>3,417,460,321</u>

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

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

	December 31, 2020			
	Granted amount	Outstanding balance	Guarantor share	Defaulted debts
Type of credit facilities	U.S. \$	U.S. \$	%	U.S. \$
Production loans	15,256,195	11,621,662	70	3,208,357
Operating loans	9,232,231	7,331,352	60	830,942
Development loans	23,844,516	18,770,356	50	1,622,809
Small and medium sized projects' loans	4,189,124	2,896,134	100 - 35	231,432
	<u>52,522,066</u>	<u>40,619,504</u>		<u>5,893,540</u>

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	Total
	U.S. \$	U.S. \$	U.S. \$
<u>December 31, 2021</u>			
Local	17,480,998	3,535,467	21,016,465
Foreign	19,560,839	1,677,958	21,238,797
	<u>37,041,837</u>	<u>5,213,425</u>	<u>42,255,262</u>
<u>December 31, 2020</u>			
Local	7,483,575	3,450,180	10,933,755
Foreign	16,077,517	1,547,752	17,625,269
	<u>23,561,092</u>	<u>4,997,932</u>	<u>28,559,024</u>

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

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	(4,999,792)	(3,854,902)
Change in fair value through other comprehensive income items	3,337,959	(1,144,890)
Gains on sale of financial assets at fair value through comprehensive income recognized directly in retained earnings	(30,716)	-
Balance, end of the year	<u>(1,692,549)</u>	<u>(4,999,792)</u>

The sales were made during the year with the aim of financing some other investment activities and with the aim of exiting some investments that did not achieve the 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. \$
<u>December 31, 2021</u>						
Local	66,557,446	-	12,500,000	-	(791,342)	78,266,104
Foreign	76,160,924	40,876,267	-	35,913,425	(2,371,303)	150,579,313
	<u>142,718,370</u>	<u>40,876,267</u>	<u>12,500,000</u>	<u>35,913,425</u>	<u>(3,162,645)</u>	<u>228,845,417</u>
<u>December 31, 2020</u>						
Local	30,138,004	-	8,000,000	-	(526,487)	37,611,517
Foreign	76,803,680	62,328,177	-	30,513,425	(1,757,569)	167,887,713
	<u>106,941,684</u>	<u>62,328,177</u>	<u>8,000,000</u>	<u>30,513,425</u>	<u>(2,284,056)</u>	<u>205,499,230</u>

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

2021				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	180,446,295	26,073,566	1,263,425	207,783,286
Net change during the year	28,436,785	(4,312,009)	100,000	24,224,776
Transfer to stage (1)	2,081,832	(2,081,832)	-	-
Transfer to stage (2)	(1,264,410)	1,264,410	-	-
Transfer to stage (3)	(2,300,000)	-	2,300,000	-
Balance, end of the year	<u>207,400,502</u>	<u>20,944,135</u>	<u>3,663,425</u>	<u>232,008,062</u>

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

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

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

2020				
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	770,578	310,299	1,263,425	2,344,302
Recovery of expected credit loss	199,294	(259,540)	-	(60,246)
Transfer to stage (1)	72	(72)	-	-
Transfer to stage (2)	(17,040)	17,040	-	-
Balance, end of the year	<u>952,904</u>	<u>67,727</u>	<u>1,263,425</u>	<u>2,284,056</u>

Interest on U.S. Dollar financial assets at amortized cost ranges between 2.58% and 8.13%.

Interest on Jordanian Dinar financial assets at amortized cost ranges between 5.01% and 6.49%.

Interest on Kuwaiti Dinar financial assets at amortized cost ranges between 4.13% and 6.00%.

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

Foreign government treasury bonds represent the Bank's investment in listed Jordanian treasury bonds, where the interest rate on these assets ranges from 5.01% to 6.49% and matures within a period of 6 months to four years.

Profit on Islamic Sukuk ranges between 2.55% and 7.44%.

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

11. Investment in associates and a joint venture

Following are the details of investments in associates, as at December 31, 2021 and 2020:

	Country of Incorporation	Ownership		Subscribed Share Capital	
		2021 %	2020 %	2021 U.S. \$	2020 U.S. \$
Abraj Co, for Development & Investment (Abraj) *	Palestine	21	21	4,751,499	4,904,368
The Palestinian Company for Money Transportation and Valuables and Banking Services (Aman) **	Palestine	30	30	975,618	1,042,012
Qudra for energy solutions***	Palestine	50	-	3,943,935	-
				<u>9,671,052</u>	<u>5,946,380</u>

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

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

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

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

	Abraj		Aman	
	2021	2020	2021	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>The financial position of associates:</u>				
Total assets	35,462,386	36,118,581	4,308,459	4,287,251
Total liabilities	(7,624,495)	(7,458,991)	(1,383,967)	(1,104,391)
Total equity	27,837,891	28,659,590	2,924,492	3,182,860
Bank's share	5,847,957	6,018,514	877,348	954,858
Book value before adjustments	5,847,957	6,018,514	877,348	954,858
Adjustments	(1,096,458)	(1,114,146)	98,270	87,154
Book value after adjustments	4,751,499	4,904,368	975,618	1,042,012
<u>Revenues and results of operations:</u>				
Net revenues	2,000,041	1,667,037	2,093,984	1,676,168
Operational, administrative and general expenses	(931,918)	(500,613)	(752,390)	(541,761)
Finance costs	(251,693)	(290,182)	(21,248)	(19,777)
Other revenues (expenses), net	35,161	(6,329)	88,708	109,350
Profit before tax	851,591	869,913	1,409,054	1,223,980
Tax expense	(76,000)	(173,983)	(230,367)	(185,336)
Net profit after tax of the year	775,591	695,930	1,178,687	1,038,644
Comprehensive income items	-	-	-	-
Total comprehensive income	775,591	695,930	1,178,687	1,038,644
Bank's share	162,874	146,145	353,606	311,593

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

	2021
	U.S. \$
<u>Statement of financial position for a joint venture</u>	
Total assets	8,312,002
Total liabilities	(424,132)
Net equity	7,887,870
Banks' ownership	3,943,935
Adjustments	-
Carrying amount of the investment	3,943,935
<u>Revenues and results of operations</u>	
Revenues	1,070,131
Results of operations	(112,130)
Banks' share of results of operations	(56,065)

12. Investment properties

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

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	25,884,919	25,677,869
Additions during the year	362,999	159,000
Change in fair value during the year	(285,740)	48,050
Balance, end of the year	25,962,178	25,884,919

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

	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. \$
2021							
Cost:							
Balance, beginning of the year	47,779,280	107,849,386	17,485,357	13,467,721	4,710,511	41,776,137	233,068,392
Additions and transfers from projects in progress	-	5,775,325	524,238	1,539,484	604,319	2,917,015	11,360,381
Disposals	-	(599,419)	(60,157)	-	(480,661)	(874,850)	(2,015,087)
Balance, end of the year	47,779,280	113,025,292	17,949,438	15,007,205	4,834,169	43,818,302	242,413,686
Accumulated Depreciation:							
Balance, beginning of the year	8,356,599	71,174,830	14,156,307	8,093,293	1,690,186	8,166,800	111,638,015
Depreciation for the year	621,649	6,961,633	1,295,497	2,075,306	322,222	4,535,390	15,811,697
Disposals	-	(263,620)	(56,768)	-	(320,739)	(292,713)	(933,840)
Balance, end of the year	8,978,248	77,872,843	15,395,036	10,168,599	1,691,669	12,409,477	126,515,872
Net book value	38,801,032	35,152,449	2,554,402	4,838,606	3,142,500	31,408,825	115,897,814
	Buildings and real estate *	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. \$
2020							
Cost:							
Balance, beginning of the year	46,708,005	101,088,313	16,066,003	13,038,789	4,830,321	38,741,538	220,472,969
Additions from projects in progress	1,071,275	1,896,408	1,652,236	145,705	141,844	3,034,599	7,942,067
Transfers from projects in progress (note 14)	-	5,965,425	-	283,227	-	-	6,248,652
Disposals	-	(1,100,760)	(232,882)	-	(261,654)	-	(1,595,296)
Balance, end of the year	47,779,280	107,849,386	17,485,357	13,467,721	4,710,511	41,776,137	233,068,392
Accumulated Depreciation:							
Balance, beginning of the year	7,747,357	63,052,617	12,945,690	7,010,888	1,439,793	3,947,275	96,143,620
Depreciation for the year	609,242	9,120,864	1,443,382	1,082,405	396,982	4,219,525	16,872,400
Disposals	-	(998,651)	(232,765)	-	(146,589)	-	(1,378,005)
Balance, end of the year	8,356,599	71,174,830	14,156,307	8,093,293	1,690,186	8,166,800	111,638,015
Net book value	39,422,681	36,674,556	3,329,050	5,374,428	3,020,325	33,609,337	121,430,377

* 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, 2021 and 2020. Property, plant and equipment include U.S. \$ 62,216,394 and U.S. \$ 59,386,780 of fully depreciated assets that are still used in the Bank's operations as at December 31, 2021 and 2020, respectively.

14. Projects in progress

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

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	2,680,297	3,175,677
Additions	1,644,400	5,753,272
Impairment	(1,056,516)	-
Transfers to property, plant and equipment and right of use assets (note 13)	(1,901,389)	(6,248,652)
Balance, end of the year	<u>1,366,792</u>	<u>2,680,297</u>

As at December 31, 2021 the estimated cost to complete projects in progress amounted to U.S. \$ 2,314,435 Projects are expected to be completed during the year 2022.

15. Intangible assets

	Goodwill	Computer software	Total
	U.S. \$	U.S. \$	U.S. \$
Cost			
Balance as at January 1, 2021	3,774,558	24,541,092	28,315,650
Additions	-	1,300,903	1,300,903
Balance as at December 31, 2021	<u>3,774,558</u>	<u>25,841,995</u>	<u>29,616,553</u>
Amortization			
Balance as at January 1, 2021	-	12,887,255	12,887,255
Additions	-	2,115,405	2,115,405
Balance as at December 31, 2021	<u>-</u>	<u>15,002,660</u>	<u>15,002,660</u>
Net Book Value			
As at December 31, 2021	<u>3,774,558</u>	<u>10,839,335</u>	<u>14,613,893</u>
	Goodwill	Computer software	Total
	U.S. \$	U.S. \$	U.S. \$
Cost			
Balance as at January 1, 2020	3,774,558	22,423,297	26,197,855
Additions	-	2,117,795	2,117,795
Balance as at December 31, 2020	<u>3,774,558</u>	<u>24,541,092</u>	<u>28,315,650</u>
Amortization			
Balance as at January 1, 2020	-	10,900,739	10,900,739
Additions	-	1,986,516	1,986,516
Balance as at December 31, 2020	<u>-</u>	<u>12,887,255</u>	<u>12,887,255</u>
Net Book Value			
As at December 31, 2020	<u>3,774,558</u>	<u>11,653,837</u>	<u>15,428,395</u>

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, 2021 and 2020. The book value of the investment was also compared to its market value, and to the sale of similar investments in the financial markets. So that the market value of the investment was greater than the book value, and hence, it did not result in any impairment losses on the value of the recorded goodwill.

16. Other assets

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
Accounts receivable and temporary advance payments, net*	11,743,498	9,815,677
Accrued interests and commissions	11,194,422	9,630,871
Clearing checks	10,003,474	12,571,202
In advance payments	6,451,191	6,954,133
Stationery and printings material and equipment in stores	2,324,916	2,160,781
Assets obtained by the Bank by calling on collateral**	779,869	1,867,160
Other current assets	1,840,817	4,628,866
	<u>44,338,187</u>	<u>47,628,690</u>

* Accounts receivable and temporary advance payments are shown in net, as an impairment provision was reduced during the year on these temporary receivables and advances in the amount of U.S. \$ 300,000 recorded.

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

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	1,867,160	677,531
Sale of properties	(419,760)	-
Impairment	(667,531)	-
Additions	-	1,189,629
Balance, end of the year	<u>779,869</u>	<u>1,867,160</u>

17. Palestine Monetary Authority's deposits

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
Current accounts	46,296,880	28,191,932
Term deposits maturing within 3 months	16,042,099	77,738,726
Motivational deposits maturing in more than 3 months*	20,000,000	18,571,989
SWAP deposits maturing in less than 3 months	73,472,818	43,844,655
Deposits maturing in more than 3 months	86,627,310	-
	<u>242,439,107</u>	<u>168,347,302</u>

* This item represents the value of motivational deposits from PMA to the Arab Islamic Bank (subsidiary company) with the aim of mitigating the economic effects of the Corona Virus (Covid 19) crisis on the activities of the subsidiary and the losses it sustained as a result of postponing customer installments during the year 2020. The Bank addressed the impact of the difference between the interest rate for these deposits and the market interest rate for them in accordance with the IAS (20) - Accounting for Government Grants and Disclosure of Government Aid, resulted in profits of U.S. \$ 1,428,011 that were recorded in the consolidated income statement for the year ended December 31, 2020 under the item of net financing income and investment income (note 33). The Bank also amortized during the year the entire value of the amount recorded during 2020 and recorded it in the consolidated income statement for the year to comply with the accounting treatment of the resulting adjustments to the Islamic financing of the subsidiary.

18. Banks and financial institutions' deposits

This item comprises the following:

	Current and on demand accounts U.S. \$	Term deposits maturing within 3 months U.S. \$	SWAP deposits U.S. \$	Term deposits maturing in more than 3 months U.S. \$	Total U.S. \$
<u>December 31, 2021</u>					
Local	1,010,601	18,996,455	10,000,000	2,000,000	32,007,056
Foreign	11,425,149	66,629,663	10,000,000	-	88,054,812
	<u>12,435,750</u>	<u>85,626,118</u>	<u>20,000,000</u>	<u>2,000,000</u>	<u>120,061,868</u>
<u>December 31, 2020</u>					
Local	*32,582,614	4,820,874	-	-	37,403,488
Foreign	16,076,862	28,607,851	-	-	44,684,713
	<u>48,659,476</u>	<u>33,428,725</u>	<u>-</u>	<u>-</u>	<u>82,088,201</u>

* This item includes cash shipping safeguards to some local Banks amounted to U.S. \$ 30,473,580 as at December 31, 2021.

19. Customers' deposits

	2021 U.S. \$	2020 U.S. \$
Customers' deposits		
Current and on-demand deposits	1,950,804,278	1,780,702,941
Saving deposits	1,308,094,915	1,060,677,761
Time deposits	789,999,818	809,683,606
Debit balances – temporarily credit	18,904,458	34,573,077
	<u>4,067,803,469</u>	<u>3,685,637,385</u>
<u>Unrestricted investment accounts</u>		
Saving deposits	569,584,056	387,933,636
Time deposits	376,163,801	507,364,353
	<u>945,747,857</u>	<u>895,297,989</u>
	<u>5,013,551,326</u>	<u>4,580,935,374</u>

- Public sector deposits amounted to U.S. \$ 197,456,958 and U.S. \$ 150,023,920 representing 3.94% and 3.27% of total deposits as at December 31, 2021 and 2020, respectively.
- Non-interest and non-profit bearing deposits amounted to U.S. \$ 3,200,179,705 and U.S. \$ 2,764,362,450 representing 65.25% and 60.34% of total deposits as at December 31, 2021 and 2020, respectively.
- Dormant deposits amounted to U.S. \$ 129,318,773 and U.S. \$ 77,032,004 representing 2.58% and 1.68% of total deposits as at December 31, 2021 and 2020, respectively.
- Restricted deposits amounted to U.S. \$ 113,799,938 and U.S. \$ 65,237,219 representing 2.27% and 1.42% of total deposits as at December 31, 2021 and 2020, respectively.

20. Cash margins

This item represents cash margins against:

	2021	2020
	U.S. \$	U.S. \$
Direct credit facilities and Islamic financing	215,141,761	185,005,213
Indirect credit facilities and Islamic financing	34,946,784	33,413,859
Others	41,499,731	34,669,808
	<u>291,588,276</u>	<u>253,088,880</u>

The interest rate on these margins ranges between 0.1% and 5.5%, and they are due within a period of one month to five years.

21. Subordinated Loan

During the year 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, 2026. The loan is subject to average annual interest rate of 7.52%, the interest will be paid on semiannual basis and started December 15, 2016.

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

During the year, the Bank paid an amount of U.S. \$ 2.5 million of the value of this support loan, bringing the outstanding balance to U.S. \$ 72.5 million as on December 31, 2021, compared to U.S. \$ 75 million as on December 31, 2020.

22. Loans and borrowings

Details of this item are as follows:

	2021	2020
	U.S. \$	U.S. \$
Arab Fund for Economic and Social Development *	15,000,000	15,000,000
French Agency for Development **	13,442,500	12,636,180
European Bank for Reconstruction and Development (EBRD)***	10,000,000	-
European Investment Bank ****	10,000,000	-
	<u>48,442,500</u>	<u>27,636,180</u>

* During 2020, the Bank signed an agreement with the Arab Fund for Economic and Social Development by the amount of U.S. \$ 15,000,000 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 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 semiannual installments with a grace period of 36 months. The first installment was due on November 30, 2021 and the last installment will become due on May 31, 2031. The loan is subject to average annual interest rate of 2.62%. The utilized amount as at December 31, 2021 and 2020 amounted to U.S. \$ 13,442,500 and 12,636,180, respectively.

*** During the year, 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 the year, an amount of U.S. \$ 10,000,000 was transferred with the remainder to be transferred during the next year. The loan is to be settled through 15 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%.

**** During the year, 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 the year, and the rest of the amount will be transferred in the coming years. This loan is repayable in 14 semi-annual installments. The first installment will be due on May 15, 2022, and the last settlement will become due on November 15, 2028. The loan is subject to average annual interest rate of 3.49%.

23. Istidama loans from Palestine Monetary Authority

This item represents PMA's deposits as per PMA instructions number (22/2020) to mitigate the economic impacts of Coronavirus (COVID-19) outbreak on the economic activities and projects especially the small and medium projects. PMA charges an interest of 0.5% on the credit facilities granted and the Bank earns a declining interest at a maximum rate of 3% from borrowers. Istidama loans as at December 31, 2021 and December 31, 2020 amounted to U.S. \$ 22,307,552 and 9,134,926, respectively.

24. Lease liabilities

The table below shows the book value of the lease liabilities and the movement thereon:

	2021	2020
	U.S. \$	U.S. \$
Balance, beginning of the year	33,453,914	33,671,658
Disposals	(634,533)	-
Additions during the year	2,917,015	3,034,599
Finance costs during the year	958,455	1,011,795
Payments	(4,794,691)	(4,264,138)
Balance, end of the year	31,900,160	33,453,914

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

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

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the consolidated income statement for the year ended December 31, 2021 and December 31, 2020 amounted to U.S. \$ 766,480 and U.S. \$ 909,304, respectively (note 38).

25. Sundry provisions

	Balance, beginning of the year U.S. \$	Provided during the year U.S. \$	Paid during the year U.S. \$	Balance, end of the year U.S. \$
December 31, 2021				
End of service provision	46,931,940	9,833,706	(8,001,758)	48,763,888
Lawsuits provision	1,919,435	300,000	-	2,219,435
	<u>48,851,375</u>	<u>10,133,706</u>	<u>(8,001,758)</u>	<u>50,983,323</u>
December 31, 2020				
End of service provision	45,056,909	5,982,147	(4,107,116)	46,931,940
Lawsuits provision	1,919,435	-	-	1,919,435
	<u>46,976,344</u>	<u>5,982,147</u>	<u>(4,107,116)</u>	<u>48,851,375</u>

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, 2021 and 2020 are as follows:

	2021 U.S. \$	2020 U.S. \$
Balance, beginning of the year	4,610,652	1,421,119
Additions	28,350,526	17,748,220
Advances paid	(10,764,288)	(14,339,725)
Payments during the year	(704,576)	(218,962)
Balance, end of the year	<u>21,492,314</u>	<u>4,610,652</u>

Details of taxes provision are as follows:

	2021 U.S. \$	2020 U.S. \$
Provision for the year	28,920,430	18,619,982
Motivational tax discounts and other settlements	(569,904)	(871,762)
Tax expenses presented in the consolidated income statement for the year	<u>28,350,526</u>	<u>17,748,220</u>

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

	2021	2020
	U.S. \$	U.S. \$
Accounting profit	84,604,853	40,160,368
Profit not subject to value added tax	(5,714,944)	(15,879,892)
Non-deductible tax expenses	14,015,342	25,286,539
Gross profit subject to value added tax	92,905,251	49,567,015
Net profit subject to value added tax	92,905,251	49,567,015
Deduct: value added tax	(12,814,517)	(6,836,830)
value added tax on salaries	(7,800,711)	(7,652,138)
Adjustment for tax calculation purpose	(3,286,669)	(1,753,511)
Taxable income	69,003,354	33,324,536
Tax expenses for the year	10,350,503	4,998,680
Taxes payable for the year	23,165,020	11,835,510
Taxes provisions for the year	28,920,430	18,619,982
Effective tax rate	%34.18	46.36%

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

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

As at December 31, 2021, the legal income tax and value added tax rates were %15 and %16, respectively. According to Law No. (4) for the year 2014, concerning the amendment of Law No. (8) for the year 2011 related to income taxes; income tax rate on profits resulted from financing small and medium enterprises equals to %10 of profit.

27. Other liabilities

Details of this item are as follows:

	2021	2020
	U.S. \$	U.S. \$
Certified Bank checks	22,086,247	23,422,336
Accounts payable of subsidiaries' customers	13,679,208	13,364,659
Outward Transfers	10,679,050	8,985,958
Accrued and not paid interests	6,696,086	7,466,146
Negative financial derivatives (Transactions between Banks)	6,256,487	12,564,464
Provision for employee rewards	5,700,000	-
Cash dividends payable	5,505,477	6,503,254
Interests and commissions paid in advance	4,655,044	1,997,074
Temporary deposits	4,580,207	4,493,292
Cash margins for donors	3,038,627	2,717,255
Accrued taxes	2,775,327	1,308,279
Return on unrestricted investment accounts	2,767,005	2,602,245
Accrued expenses	1,987,990	1,556,251
Board of Directors bonuses	1,240,000	1,020,000
Provision for expected credit losses on indirect credit facilities (note 51)	315,086	302,153
Others	4,894,110	4,839,147
	96,855,951	93,142,513

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. \$ 0.05 of additional paid-in capital, with a total additional paid-in capital amounted to U.S. \$ 650,000. The offer was based on extra-ordinary shareholders meeting on April 6, 2007.
- On July 15, 2021, the Bank signed an agreement with the French Proparco Corporation (the Corporation) in which the French Development Agency (FISEA) a subsidiary of the Proparco Corporation invests, according to which the Corporation was entered as a strategic partner to the Bank, with a contribution of 3.34% of the Bank's capital, equivalent to 7,272,727 share at U.S. \$ 1 par value per share plus U.S. \$ 0.65 of additional paid-in capital, with a total additional paid-in capital amounted to U.S. \$ 4,727,273.

29. Reserves

Statutory reserve

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

Voluntarily reserve

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

General Banking risks reserve

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

Pro-cyclicality reserve

This reserve represents 15% of net profit in accordance with PMA's instruction (1/2011) and (6/2015) to support the Banks' capital against Banking risks. The reserve is not to be utilized or reduced without PMA's prior approval. It is not permissible to seize the deduction before the accumulated balance reaches the equivalent of 20% of the Bank's capital. During 2018, PMA issued instructions No. (1/2018) regarding pro-cyclicality reserve, the reserve is to be calculated as a percentage of risk-weighted assets determined by PMA and ranging between (0% - 2.5%). In 2018, PMA decided to set the percentage at 0.57% of risk-weighted assets. During 2019, PMA issued instructions number (13/2019) regarding the pro-cyclicality reserve, the reserve is to be calculated as a percentage of risk-weighted assets determined by PMA and ranging between (0% - 2.5%). In 2019, PMA decided to set the percentage at 0.66% of risk-weighted assets. The Bank will be obligated to disclose the counter cyclical capital source in its financial statements starting from December 2023. The Bank did not deduct pro-cyclicality reserve for the year based on understandings with PMA. The reserve will not be utilized without PMA's approval.

30. Dividends

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

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

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

31. Interest income

This item comprises interest revenues earned on the following accounts:

	2021	2020
	U.S. \$	U.S. \$
Loans	109,480,832	106,496,865
Overdraft accounts	27,858,793	27,246,987
Overdrawn accounts	12,219,407	11,137,370
Financial assets at amortized cost	8,874,043	7,433,087
Balances at Banks and financial institutions	4,272,445	4,360,528
Credit cards	3,546,854	4,426,409
Balances with Palestine Monetary Authority	-	188,133
	<u>166,252,374</u>	<u>161,289,379</u>

32. Interest expense

This item comprises interest incurred on the following accounts:

	2021	2020
	U.S. \$	U.S. \$
<u>Interest on customers' deposits</u>		
Time deposits	25,198,716	29,936,376
Saving accounts	2,944,509	1,326,084
Current and on demand accounts	154,305	246,168
	<u>28,297,530</u>	<u>31,508,628</u>
Interest on subordinated loan	5,831,888	5,855,620
Interest on Palestine Monetary Authority's deposits	1,491,136	1,991,480
Interest on loans and borrowings	1,049,100	269,768
Interest on Banks and financial institutions' deposits	1,276,759	2,013,306
Interest on lease liabilities	959,837	1,011,795
	<u>38,906,250</u>	<u>42,650,597</u>

33. Net financing and investment income

This item comprises net investment and financing income from Arab Islamic Bank (subsidiary) from the date of acquisition on the following accounts:

	2021	2020
	U.S. \$	U.S. \$
Revenues from financing returns	60,693,209	43,348,373
Investment returns	2,192,718	2,584,535
	<u>62,885,927</u>	<u>45,932,908</u>
Less: return of unrestricted investment accounts	(12,719,228)	(10,270,226)
	<u>50,166,699</u>	<u>35,662,682</u>

34. Net commissions

This item comprises commissions against the following:

	2021	2020
	U.S. \$	U.S. \$
Commissions income:		
Direct credit facilities	11,454,945	10,510,904
Credit cards commission revenue, net	5,439,515	6,559,130
Accounts management commission	7,460,217	7,238,433
Checks	4,977,780	5,700,480
Bank transfers	7,344,144	5,371,148
Indirect credit facilities	3,217,377	3,470,702
Salaries commission	3,524,533	3,775,575
Other Banking services	6,414,128	3,983,597
	<u>49,832,639</u>	<u>46,609,969</u>
Less: commissions expense	(3,747,398)	(3,453,484)
	<u>46,085,241</u>	<u>43,156,485</u>

35. Net gains from financial assets

This item comprises the following:

	2021	2020
	U.S. \$	U.S. \$
Unrealized gains/(losses) from revaluation of financial assets at fair value through profit or loss	4,199,145	(1,223,581)
Dividends from financial assets through other comprehensive income	1,977,333	585,596
Realized gains from sale of financial assets at fair value through profit or loss	1,255,231	-
Dividends from financial assets at fair value through profit or loss sold during the year	711,980	-
Dividends from financial assets through profit or loss	481,418	885,949
Gains from sale of financial assets at amortized cost	19,858	820,823
Investment management fees	(693,134)	(457,058)
	<u>7,951,831</u>	<u>611,729</u>

36. Other revenues, net

	2021	2020
	U.S. \$	U.S. \$
Safe boxes rental	247,207	205,875
Recovery of suspended interest	3,857,115	2,922,628
Sundry	4,325,101	3,812,512
	<u>8,429,423</u>	<u>6,941,015</u>

37. Personnel expenses

	2021	2020
	U.S. \$	U.S. \$
Salaries and related benefits	50,225,633	49,195,022
Provision for employees' end of service	9,833,706	5,982,147
Value added tax on salaries	7,800,711	7,652,138
Bonuses and rewards	6,134,250	3,307,283
Medical and insurance expenses	3,745,537	3,341,861
Bank's contribution to saving fund	2,128,265	2,139,786
Clothing allowances	919,211	983,227
Training expenses	839,351	608,258
Transportation	545,530	385,850
	<u>82,172,194</u>	<u>73,595,572</u>

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

38. Other operating expenses

	2021	2020
	U.S. \$	U.S. \$
Maintenance and repairs	6,308,071	5,879,385
Telephone, postage and fax	5,702,374	6,239,107
Palestine Deposit Insurance Corporation fees*	4,721,739	6,905,465
Cash shipping expense	4,592,840	3,061,256
Professional fees	4,297,917	3,106,446
Advertising and promotions	3,342,266	3,683,130
Subscriptions fees	2,355,459	2,322,846
Utilities	2,298,849	2,229,688
Board of Directors bonuses and allowances	2,077,907	1,987,198
Social responsibility **	1,775,464	2,316,929
Stationery and printing	1,674,300	1,658,676
Insurance fees	1,441,958	1,265,049
License fees	1,328,054	1,261,751
Fuel	1,037,508	1,005,719
Guarding and cleaning fees	804,476	959,892
Rent (note 24)	766,480	909,304
Hospitality and ceremonies fees	431,210	319,315
Travel and seminars fees	278,847	289,094
Vehicles' expense	265,869	282,277
Sundry	5,355,921	2,937,599
	<u>50,857,509</u>	<u>48,620,126</u>

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

** The Bank is committed to support social responsibility projects and activities in Palestine through contributions towards the development of various sectors including education, youth, innovation, sport, health and environment, culture and arts, development and economic, diaspora affairs, humanitarian effort and women empowerment, In addition, the Bank encourages its employees to participate in voluntary work by engaging them in developmental projects in cooperation with partner organizations and humanitarian initiatives. Social responsibility represents 3.14% and 11.4% of profit for the years 2021 and 2020, respectively.

39. (Provision) recovery of expected credit losses on investments and indirect credit facilities

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

	2021			2020
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balances with Palestine Monetary Authority (note 5)	809,904	-	-	809,904
Balances at Banks and financial institutions (note 6)	(398,058)	-	542,642	144,584
Financial assets at amortized cost (note 10)	73,380	5,209	800,000	878,589
Indirect credit facilities (note 51)	(156,179)	169,112	-	12,933
Total	<u>329,047</u>	<u>174,321</u>	<u>1,342,642</u>	<u>1,846,010</u>
				<u>489,146</u>

40. Palestine Monetary Authority fines

This item represents fines imposed by PMA on the Bank and its subsidiary amounted to U.S. \$ 20,000 for the year ended December 31, 2021 and 2020 related to non-compliance with PMA instructions and the related laws and regulations.

41. Cash and cash equivalents

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

	2021	2020
	U.S. \$	U.S. \$
Cash and balances with Palestine Monetary Authority	1,780,389,793	1,323,410,056
Add:		
Balances at Banks and financial institutions	<u>785,484,594</u>	<u>750,968,424</u>
	<u>2,565,874,387</u>	<u>2,074,378,480</u>
Less:		
Deposits maturing in more than three months	(13,000,000)	(9,167,842)
Investment maturing in more than three months	(3,000,000)	(4,062,368)
Restricted balances of withdrawal	(83,831,814)	(76,264,641)
Balances with Palestine Monetary Authority	(135,811,797)	(149,775,313)
Deposits at Banks and financial institutions	(118,061,868)	(82,088,201)
Statutory cash reserve	<u>(424,300,643)</u>	<u>(410,440,348)</u>
	<u>1,787,868,265</u>	<u>1,342,579,767</u>

42. Basic and diluted earnings per share

	2021	2020
	U.S. \$	U.S. \$
Profit for the year attributable to equity holders of the Bank	<u>49,132,664</u>	<u>19,881,004</u>
	Shares	Shares
Weighted average of subscribed shares during the year	<u>212,952,389</u>	<u>210,160,800</u>
	U.S. \$	U.S. \$
Basic and diluted earnings per share attributable to equity holders of the Bank	<u>0.23</u>	<u>0.09</u>

43. Related party transactions

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

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

<u>2020</u>	<u>Associates</u> <u>U.S. \$</u>	<u>Major</u> <u>shareholders</u> <u>U.S. \$</u>	<u>Board of</u> <u>Directors and</u> <u>executive</u> <u>management</u> <u>U.S. \$</u>	<u>Others*</u> <u>U.S. \$</u>	<u>Total</u> <u>U.S. \$</u>
<u>Consolidated statement of financial position items:</u>					
Direct credit facilities and financing	<u>4,657,378</u>	<u>-</u>	<u>50,421,286</u>	<u>34,927,753</u>	<u>90,006,417</u>
Including:					
non-performing credit facilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>209,034</u>	<u>209,034</u>
Deposits	<u>780,797</u>	<u>-</u>	<u>45,302,876</u>	<u>21,997,685</u>	<u>68,081,358</u>
Subordinated loan	<u>-</u>	<u>75,000,000</u>	<u>-</u>	<u>-</u>	<u>75,000,000</u>
Financial assets at amortized cost	<u>-</u>	<u>-</u>	<u>8,000,000</u>	<u>-</u>	<u>8,000,000</u>
Board of Directors remunerations	<u>-</u>	<u>-</u>	<u>1,020,000</u>	<u>-</u>	<u>1,020,000</u>
<u>Commitments and contingencies</u>					
Letters of guarantees	<u>211,566</u>	<u>-</u>	<u>19,910,341</u>	<u>1,036,153</u>	<u>21,158,060</u>
Letters of credit	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,400</u>	<u>614,400</u>
Unutilized limits	<u>-</u>	<u>-</u>	<u>258,003</u>	<u>6,422,735</u>	<u>6,680,738</u>
<u>Consolidated Income statement items:</u>					
Interest and commissions earned	<u>209,582</u>	<u>-</u>	<u>2,507,193</u>	<u>1,860,039</u>	<u>4,576,814</u>
Interest and commissions paid	<u>-</u>	<u>5,855,620</u>	<u>802,624</u>	<u>127,138</u>	<u>6,785,382</u>

- * 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, 2021 and 2020 represent 2.47% and 3.27% respectively, from the net direct credit facilities and Islamic financing.
 - Net direct credit facilities and Islamic financing granted to related parties as at December 31, 2021 and 2020 represent 15.45% and 21.34% respectively, from the Bank's regulatory capital.
 - Interest on U.S. \$ direct credit facilities ranges between 1.8% to 24%.
 - Interest on New Israeli Shekels direct credit facilities ranges between 3% to 16%.
 - Interest on the Jordanian Dinar direct credit facilities ranges between 7.5% to 11%.
 - Interest on U.S. \$ deposits ranges between 1% to 5.25%.

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

	2021	2020
	U.S. \$	U.S. \$
Executive management's salaries and related benefits (short term benefits)	2,867,378	4,945,839
Executive management's end of service provision (long term benefits)	440,746	419,911
Board of Directors' bonuses and expenses *	1,240,000	1,020,000
Chairman allowances	480,000	480,000

* This item includes the board of directors' remuneration of Bank of Palestine in the amount of U.S. \$ 990,000 and U.S. \$ 800,000 for the year 2021 and 2020, respectively.

Following are the details of Board of Director remuneration for the years 2021 and 2020.

	2021	2020
	U.S. \$	U.S. \$
Hashim Hani Shawa	108,659	80,000
Hani Hasan Nigim	108,659	80,000
Maher Jawad Farah	108,659	80,000
Lana Abu Hijleh	108,659	80,000
Maha Awad	108,659	80,000
Tafeeda Jarbawi	108,659	80,000
Emad Erik Shehadeh	108,659	35,556
Abdullah Al-Ghanim	96,585	62,222
Tariq Aqqad	84,512	80,000
Nada Shousha	48,290	80,000
Faysal Ghazi Alshawa	-	17,778
Tareq Al Shakaa	-	44,444
	990,000	800,000

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 2.01% and 4.02% of profit for the years 2021 and 2020, respectively.

44. Fair value of financial instruments

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

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial assets					
Cash and balances with Palestine Monetary Authority	1,779,579,889	-	-	1,779,579,889	1,779,579,889
Balances at Banks and financial institutions	782,230,313	-	-	782,230,313	782,230,313
Financial assets at fair value through profit or loss					
Quoted stocks	5,253,849	5,253,849	-	-	5,253,849
Unquoted stocks	5,000,000	-	-	5,000,000	5,000,000
Direct credit facilities and Islamic financing					
Individuals	1,014,724,224	-	-	1,014,724,224	1,014,724,224
Corporate, institutions and small projects	1,595,962,427	-	-	1,595,962,427	1,595,962,427
Public Sector	842,520,509	-	-	842,520,509	842,520,509
Financial assets at fair value through other comprehensive income					
Quoted stocks	37,041,837	37,041,837	-	-	37,041,837
Unquoted stocks	5,213,425	-	-	5,213,425	5,213,425
Financial assets at amortized cost:					
Treasury bills	141,921,436	76,160,924	-	66,557,446	142,718,370
Quoted bonds	40,865,932	41,865,136	-	-	41,865,136
Unquoted bonds	12,348,257	-	-	12,500,000	12,500,000
Islamic sukuk	33,709,792	33,709,792	-	-	33,709,792
Other financial assets	34,782,211	-	-	34,782,211	34,782,211
Total assets	6,331,154,101	194,031,538	-	6,139,070,444	6,333,101,982
Financial liabilities					
Palestine Monetary Authority deposits	242,439,107	-	-	242,439,107	242,439,107
Banks and financial institutions' deposits	120,061,868	-	-	120,061,868	120,061,868
Customers' deposits	5,013,551,326	-	-	5,013,551,326	5,013,551,326
Cash margins	291,588,276	-	-	291,588,276	291,588,276
Subordinated loan	72,500,000	-	-	72,500,000	72,500,000
Loans and borrowings	48,442,500	-	-	48,442,500	48,442,500
Istidama loans from Palestine Monetary Authority	22,307,552	-	-	22,307,552	22,307,552
Leased Liabilities	31,900,160	-	-	31,900,160	31,900,160
Other financial liabilities	96,540,865	-	-	96,540,865	96,540,865
Total liabilities	5,939,331,654	-	-	5,939,331,654	5,939,331,654

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

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial assets					
Cash and balances with Palestine Monetary Authority	1,323,410,056	-	-	1,323,410,056	1,323,410,056
Balances at Banks and financial institutions	747,858,727	-	-	747,858,727	747,858,727
Financial assets at fair value through profit or loss					
Quoted stocks	13,735,350	13,735,350	-	-	13,735,350
Unquoted stocks	5,000,000	-	-	5,000,000	5,000,000
Direct credit facilities and Islamic financing	3,266,748,588	-	-	3,266,748,588	3,266,748,588
Financial assets at fair value through other comprehensive income					
Quoted stocks	23,561,092	23,561,092	-	-	23,561,092
Unquoted stocks	4,997,932	-	-	4,997,932	4,997,932
Financial assets at amortized cost:					
Treasury bills	106,372,103	76,803,682	-	30,137,936	106,941,618
Quoted bonds	62,247,819	64,399,222	-	-	64,399,222
Unquoted bonds	7,830,904	-	-	8,000,000	8,000,000
Islamic sukuk	29,048,404	30,513,425	-	-	30,513,425
Other financial assets	36,646,616	-	-	36,646,616	36,646,616
Total assets	5,627,457,591	209,012,771	-	5,422,799,855	5,631,812,626
Financial liabilities					
Palestine Monetary Authority deposits	168,347,302	-	-	168,347,302	168,347,302
Banks and financial institutions' deposits	82,088,201	-	-	82,088,201	82,088,201
Customers' deposits	4,580,935,374	-	-	4,580,935,374	4,580,935,374
Cash margins	253,088,880	-	-	253,088,880	253,088,880
Subordinated loan	75,000,000	-	-	75,000,000	75,000,000
Loans and borrowings	27,636,180	-	-	27,636,180	27,636,180
Istidama loans from Palestine Monetary Authority	9,134,926	-	-	9,134,926	9,134,926
Leased Liabilities	33,453,914	-	-	33,453,914	33,453,914
Other financial liabilities	92,840,360	-	-	92,840,360	92,840,360
Total liabilities	5,322,525,137	-	-	5,322,525,137	5,322,525,137

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

Fair values of cash and balances with PMA, balances at Banks and financial institutions, other financial assets, PMA deposits, Banks and financial institutions balances, some customers' deposits, some cash margins, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

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

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

Fair value of credit facilities and Islamic financing was determined through the study of different variables such as interest rates, risk factors and the debtor's solvency. The fair value of credit facilities does not differ from their carrying amounts as at December 31, 2021.

45. Fair value measurement

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

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

The following table provides the fair value measurement hierarchy of the Bank's assets as at December 31, 2021:

		Measurement of fair value by			
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
Date of evaluation					
<u>Financial assets at fair value</u>					
Financial assets at fair value through profit or loss- Quoted (note 7):					
Quoted	December 31, 2021	5,253,849	5,253,849	-	-
Unquoted	December 31, 2021	5,000,000	-	-	5,000,000
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2021	37,041,837	37,041,837	-	-
Unquoted	December 31, 2021	5,213,425	-	-	5,213,425
<u>Financial assets accounted for in its fair value:</u>					
Financial assets at amortized cost- Quoted (note 10):					
Treasury bills	December 31, 2021	142,718,370	76,160,924	-	66,557,446
Quoted bonds	December 31, 2021	41,865,136	41,865,136	-	-
Unquoted bonds	December 31, 2021	12,500,000	-	-	12,500,000
Islamic Sukuk	December 31, 2021	33,709,792	33,709,792	-	-
Investment properties (note 12)	December 31, 2021	25,962,178	-	-	25,962,178
<u>Total liabilities measured at fair value on a recurring basis</u>					
Financial derivatives at fair value through profit or loss (note 27)	December 31, 2021	6,256,487	6,256,487	-	-

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

			Measurement of fair value by		
		Total	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	Date of evaluation	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>Financial assets at fair value</u>					
Financial assets at fair value through profit or loss- Quoted (note 7):					
Quoted	December 31, 2020	13,735,305	13,735,305	-	-
Unquoted	December 31, 2020	5,000,000	-	-	5,000,000
Financial assets at fair value through other comprehensive income (note 9):					
Quoted	December 31, 2020	23,561,092	23,561,092	-	-
Unquoted	December 31, 2020	4,997,932	-	-	4,997,932
<u>Financial assets accounted for in its fair value:</u>					
Financial assets at amortized cost- Quoted (note 10):					
Treasury bills	December 31, 2020	106,941,684	76,803,680	-	30,138,004
Quoted bonds	December 31, 2020	64,399,222	64,399,222	-	-
Unquoted bonds	December 31, 2020	8,000,000	-	-	8,000,000
Islamic Sukuk	December 31, 2020	30,513,425	30,513,425	-	-
Investment properties (note 12)	December 31, 2020	25,884,919	-	-	25,884,919
<u>Total liabilities measured at fair value on a recurring basis</u>					
Financial derivatives at fair value through profit or loss (note 27)					
	December 31, 2020	12,564,464	12,564,464	-	

The Bank has not made any transfers between the above levels during 2021 and 2020.

The following table represents the fair value sensitivity of investment properties:

	Increase/ decrease in fair value %	Effect on fair value U.S. \$
<u>2021</u>		
Fair value per square meter	5+	1,298,109
Fair value per square meter	5-	(1,298,109)
<u>2020</u>		
Fair value per square meter	5+	1,294,246
Fair value per square meter	5-	(1,294,246)

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

	Balance, beginning of the year	Additions	Maturity	Fair value reserve	Unrealized losses from revaluation of financial assets recognized in consolidated income statement	Balance, end of the year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
December 31 2021						
Financial assets at fair value through profit or loss- Quoted (note 7):						
Unquoted	8,358,340	70,000	-	-	492,088	8,920,428
Financial assets at fair value through other comprehensive income items (note 9):						
Unquoted	1,733,974	89,167	-	125,719	-	1,948,860
	<u>10,092,314</u>	<u>159,167</u>	<u>-</u>	<u>125,719</u>	<u>492,088</u>	<u>10,869,288</u>
					Unrealized losses from revaluation of financial assets recognized in consolidated income statement	Balance, end of the year
	Balance, beginning of the year	Purchases	Maturity	Fair value reserve	U.S. \$	U.S. \$
December 31 2020	U.S. \$	U.S. \$	U.S. \$	U.S. \$		
Financial assets at fair value through profit or loss- Quoted (note 7):						
Unquoted	8,417,709	-	-	-	(59,369)	8,358,340
Financial assets at fair value through other comprehensive income items (note 9):						
Unquoted	487,488	1,868,846	-	(622,360)	-	1,733,974
	<u>8,905,197</u>	<u>1,868,846</u>	<u>-</u>	<u>(622,360)</u>	<u>(59,369)</u>	<u>10,092,314</u>

Sensitivity of unobservable data (level three):

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

46. Concentration of Assets and Liabilities

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

	2021			2020		
	Assets	Liabilities and equity	Items out of consolidated financial position	Assets	Liabilities and equity	Items out of consolidated financial position
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
By geographical area						
Palestine	5,587,593,535	6,039,564,771	518,404,126	4,796,397,240	5,562,040,032	563,175,088
Israel	66,010,809	29,674,222	105,015	144,234,582	-	241,416
Jordan	358,571,719	36,773,557	2,325,015	307,442,054	(4,115,244)	1,139,345
Europe	354,937,523	128,056,121	12,851,852	361,719,570	41,244,031	18,938,689
USA	16,910,577	72,500,000	881,641	27,122,880	75,000,000	-
Others	124,197,643	201,653,135	14,287,778	172,893,662	135,641,169	17,337,247
Total	<u>6,508,221,806</u>	<u>6,508,221,806</u>	<u>548,855,427</u>	<u>5,809,809,988</u>	<u>5,809,809,988</u>	<u>600,831,785</u>
By sector						
Retail	1,091,230,036	3,509,982,647	40,917,886	972,687,296	3,053,932,599	88,927,009
Corporate, institutions and public sector	2,361,977,124	1,795,156,955	507,937,541	2,294,061,292	1,900,541,636	511,904,776
Treasury	2,852,835,782	505,751,027	-	2,330,008,722	358,409,081	-
Others	202,178,864	697,331,177	-	213,052,678	496,926,672	-
Total	<u>6,508,221,806</u>	<u>6,508,221,806</u>	<u>548,855,427</u>	<u>5,809,809,988</u>	<u>5,809,809,988</u>	<u>600,831,785</u>

47. Risk Management

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

Risk management framework

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

Risk management process

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

Risk management committee

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

Risk measurement and reporting system

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

Risks

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

I. Credit Risk

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

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

	<u>2021</u>	<u>2020</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Consolidated statement of financial position items</u>		
Balances with Palestine Monetary Authority	575,902,313	515,342,289
Balances at Banks and financial institutions	782,230,313	747,858,727
Direct credit facilities and Islamic financing:		
Retail	1,014,724,224	972,687,296
Corporates and institutions	1,595,962,427	1,496,499,973
Public sector	842,520,509	797,561,319
Financial assets at amortized cost	228,845,417	205,499,230
Other financial assets	34,782,211	36,518,160
	<u>5,074,967,414</u>	<u>4,771,966,994</u>
<u>Items not included in the consolidated statement of financial position</u>		
Letters of guarantees	206,492,217	191,064,802
Letters of credit	46,069,513	32,823,758
Acceptances	9,417,798	12,810,821
Unutilized credit facilities limits	286,553,199	363,743,554
Other	322,700	388,850
	<u>548,855,427</u>	<u>600,831,785</u>

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, 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:

	Gross Exposure			Expected credit losses			ECL Coverage Ratios		
	Stage (1)	Stage (2)	Stage (3)	Stage (1)	Stage (2)	Stage (3)	Stage (1)	Stage (2)	Stage (3)
2021	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balances with Palestine Monetary Authority	575,902,313	-	-	809,904	-	-	0.14%	-	-
Balances at Banks and financial institutions	782,375,968	-	3,108,626	411,639	-	2,842,642	0.05%	-	91.44%
Direct credit facilities and Islamic financing:									
Retail	377,055,962	657,635,824	43,835,261	3,091,987	22,029,370	24,571,583	0.82%	3.35%	56.05%
SMEs	367,263,182	106,279,350	66,400,849	3,265,647	5,589,473	36,157,650	0.89%	5.26%	54.45%
Corporate	625,083,355	486,651,896	74,664,520	2,566,262	15,604,353	43,121,099	0.41%	3.21%	57.75%
Public Sector and government	840,205,893	-	-	13,773,547	-	-	1.64%	-	-
Financial assets at amortized cost	207,400,502	20,944,135	3,663,425	951,545	145,805	2,065,295	0.46%	0.70%	56.38%
Other financial assets	34,482,211	-	300,000	-	-	300,000	0.00%	-	100.00%
Total	3,809,769,386	1,271,511,205	191,972,681	24,870,531	43,369,001	109,058,269	0.65%	3.41%	56.81%
Credit exposure related to off-balance sheet items	458,520,533	89,970,915	-	142,407	172,679	-	0.08%	0.41%	-

	Gross Exposure			Expected credit losses			ECL Coverage Ratios		
	Stage (1)	Stage (2)	Stage (3)	Stage (1)	Stage (2)	Stage (3)	Stage (1)	Stage (2)	Stage (3)
2020	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balances with Palestine Monetary Authority	515,342,289	-	-	-	-	-	-	-	-
Balances at Banks and financial institutions	732,016,418	15,561,602	3,390,404	702,444	107,253	2,300,000	0.10%	0.69%	67.84%
Direct credit facilities and Islamic financing:									
Retail	433,379,011	520,213,150	43,238,657	4,671,881	21,759,327	23,595,430	1.08%	4.18%	54.57%
SMEs	282,314,230	102,443,712	72,334,228	3,136,224	2,839,444	36,829,627	1.11%	2.77%	50.92%
Corporate	793,603,429	324,534,468	71,925,237	2,779,041	4,553,223	38,094,366	0.35%	1.40%	52.96%
Public Sector and government	793,887,297	-	-	12,453,170	-	-	1.57%	-	-
Financial assets at amortized cost	180,446,295	26,073,566	1,263,425	952,904	67,727	1,263,425	0.53%	0.26%	100.00%
Other financial assets	36,518,160	-	-	-	-	300,000	-	-	-
Total	<u>3,767,507,129</u>	<u>988,826,498</u>	<u>192,151,951</u>	<u>24,695,664</u>	<u>29,326,974</u>	<u>102,382,848</u>	<u>0.66%</u>	<u>2.97%</u>	<u>53.28%</u>
Credit exposure related to off-balance sheet items	<u>548,215,863</u>	<u>52,221,211</u>	<u>-</u>	<u>298,586</u>	<u>3,567</u>	<u>-</u>	<u>0.08%</u>	<u>0.41%</u>	<u>-</u>

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		Corporates		Public sector		Total stage (2)	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>2021</u>										
Less than 30 DPD										
Qualitative factors	86,143,441	2,227,034	49,330,809	1,990,032	298,592,152	10,880,949	-	-	434,066,402	15,098,015
More than 30 DPD	571,492,383	19,802,336	56,948,541	3,599,441	188,059,744	4,723,404	-	-	816,500,668	28,125,181
Total	<u>657,635,824</u>	<u>22,029,370</u>	<u>106,279,350</u>	<u>5,589,473</u>	<u>486,651,896</u>	<u>15,604,353</u>	<u>-</u>	<u>-</u>	<u>1,250,567,070</u>	<u>43,223,196</u>
	Retail		SMEs		Corporates		Public sector		Total stage (2)	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>2020</u>										
Less than 30 DPD										
Qualitative factors	301,894,519	19,828,375	16,283,459	811,298	56,131,294	1,280,636	-	-	374,309,272	21,920,309
More than 30 DPD	218,318,631	1,930,952	86,160,253	2,028,146	268,403,174	3,272,587	-	-	572,882,058	7,231,685
Total	<u>520,213,150</u>	<u>21,759,327</u>	<u>102,443,712</u>	<u>2,839,444</u>	<u>324,534,468</u>	<u>4,553,223</u>	<u>-</u>	<u>-</u>	<u>947,191,330</u>	<u>29,151,994</u>

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

2021	Total value of exposure U.S. \$	Fair value of collaterals					Total value of collaterals U.S. \$	Exposure net of collaterals U.S. \$	Expected credit loss U.S. \$
		Cash margins U.S. \$	Precious metals U.S. \$	Quoted stocks and letter of guarantees U.S. \$	Vehicles and other equipment U.S. \$	Real estate U.S. \$			
Credit exposures related to items in the consolidated statement of financial position:									
Balances with Palestine Monetary Authority	575,902,313	-	-	-	-	-	-	575,902,313	809,904
Balances at Banks and financial institutions	785,484,594	-	-	-	-	-	-	785,484,594	3,254,281
Direct credit facilities and Islamic financing:									
Retails	1,078,527,047	31,163,600	17,974,054	69,936,554	36,297,315	117,149,828	272,521,351	806,005,696	49,692,940
SMEs	539,943,381	81,641,358	3,216,834	254,526,793	47,781,110	77,600,519	464,766,614	75,176,767	45,012,770
Corporate and institutions	1,186,399,771	69,721,258	79,239,329	119,123,533	81,787,170	212,459,563	562,330,853	624,068,918	61,291,714
Government and public sector	840,205,893	-	-	-	-	-	-	840,205,893	13,773,547
Financial assets at amortized cost	232,008,062	-	-	-	-	-	-	232,008,062	3,162,645
Other financial assets	34,782,211	-	-	-	-	-	-	34,782,211	300,000
Total	<u>5,273,253,272</u>	<u>182,526,216</u>	<u>100,430,217</u>	<u>443,586,880</u>	<u>165,865,595</u>	<u>407,209,910</u>	<u>1,299,618,818</u>	<u>3,973,634,454</u>	<u>177,297,801</u>
Credit exposure related to off-balance sheet items	<u>548,855,427</u>	<u>51,533,860</u>	<u>-</u>	<u>13,446,754</u>	<u>294,782</u>	<u>1,662,141</u>	<u>66,937,537</u>	<u>481,917,890</u>	<u>315,086</u>

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

2021	Fair value of collaterals						Total value of collaterals	Exposure net of collaterals	Expected credit loss
	Total exposure U.S. \$	Cash margins U.S. \$	Precious metals U.S. \$	Real estate U.S. \$	Quoted stocks U.S. \$	Vehicles and other equipment U.S. \$			
Credit exposures related to items in the consolidated statement of financial position:									
Direct credit facilities and Islamic financing:									
Retail	47,629,378	2,035,298	12,717	6,656,264	-	3,175,278	11,879,557	35,749,821	31,109,022
Corporate and institutions	115,173,277	10,906,161	21,948	32,862,768	8,540	481,344	44,280,761	70,892,516	72,741,313
Total	162,802,655	12,941,459	34,665	39,519,032	8,540	3,656,622	56,160,318	106,642,337	103,850,335

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

2020	Fair value of collaterals						Total value of collaterals	Exposure net of collaterals	Expected credit loss
	Total value of exposure U.S. \$	Cash margins U.S. \$	Precious metals U.S. \$	Quoted stocks and letter of guarantees U.S. \$	Vehicles and other equipment U.S. \$	Real estate U.S. \$			
Credit exposures related to items in the consolidated statement of financial position:									
Balances with Palestine Monetary Authority	515,342,289	-	-	-	-	-	-	515,342,289	-
Balances at Banks and financial institutions	747,858,727	-	-	-	-	-	-	747,858,727	3,109,697
Direct credit facilities and Islamic financing:	-	-	-	-	-	-	-	-	-
Retail	1,021,872,542	28,963,365	349,045	13,167,151	79,890,197	144,123,970	266,493,728	755,378,814	49,185,246
Corporate and institutions	1,585,063,494	135,708,682	235,016	42,794,581	228,517,370	562,348,764	969,604,413	615,459,081	88,563,521
Government and public sector	810,524,285	-	-	-	-	-	-	810,524,285	12,962,966
Financial assets at amortized cost	205,499,230	-	-	-	-	-	-	205,499,230	2,284,056
Other financial assets	36,518,160	-	-	-	-	-	-	36,518,160	-
Total	4,922,678,727	164,672,047	584,061	55,961,732	308,407,567	706,472,734	1,236,098,141	3,686,580,586	156,105,486
Credit exposure related to off-balance sheet items	600,831,785	46,450,829	-	1,346,872	1,073,774	9,923,021	58,794,497	542,037,289	302,153

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

	Fair value of collaterals						Total value of collaterals	Exposure net of collaterals	Expected credit loss
	Total exposure	Cash margins	Precious metals	Real estate	Quoted stocks	Vehicles and other equipment			
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
<u>2020</u>									
Credit exposures related to items in the consolidated statement of financial position:									
Direct credit facilities and Islamic financing:									
Retail	32,586,904	1,383,586	92,245	3,905,741	-	1,376,082	6,757,654	25,829,250	22,804,359
Corporate and institutions	134,221,808	13,843,683	27,660	40,516,124	8,540	910,333	55,306,340	78,915,468	75,720,066
Total	<u>166,808,712</u>	<u>15,227,269</u>	<u>119,905</u>	<u>44,421,865</u>	<u>8,540</u>	<u>2,286,415</u>	<u>62,063,994</u>	<u>104,744,718</u>	<u>98,524,425</u>

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

	Palestine	Arab Countries	Israel	Europe	USA	Others	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>December 31, 2021</u>							
Balances with Palestine Monetary Authority	575,902,313	-	-	-	-	-	575,902,313
Balances at Banks and financial institutions	10,370,999	314,216,960	66,010,809	347,446,129	5,700,126	38,485,290	782,230,313
Direct credit facilities and Islamic financing	3,399,513,934	49,509,372	-	2,475,539	1,708,315	-	3,453,207,160
Financial assets at amortized cost	78,266,658	97,334,623	-	5,015,855	9,502,136	38,726,145	228,845,417
Others	34,782,211	-	-	-	-	-	34,782,211
Total as at December 31, 2021	<u>4,098,836,115</u>	<u>461,060,955</u>	<u>66,010,809</u>	<u>354,937,523</u>	<u>16,910,577</u>	<u>77,211,435</u>	<u>5,074,967,414</u>
Total as at December 31, 2020	<u>3,783,238,702</u>	<u>377,360,859</u>	<u>144,234,582</u>	<u>360,490,770</u>	<u>21,484,454</u>	<u>85,157,627</u>	<u>4,771,966,994</u>

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

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

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Palestine	2,784,485,608	930,463,805	68,289,289	3,783,238,702
Arab countries	367,079,438	10,281,421	-	377,360,859
Israel	144,234,582	-	-	144,234,582
Europe	358,417,615	2,073,155	-	360,490,770
USA	21,484,454	-	-	21,484,454
Others	76,954,779	8,202,848	-	85,157,627
Total	3,752,656,476	951,021,229	68,289,289	4,771,966,994

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

	Financial	Industrial	Commercial	Real estate	Public sector	Others	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2021							
Balances with Palestine Monetary Authority	575,902,313	-	-	-	-	-	575,902,313
Balances at Banks and financial institutions	782,230,313	-	-	-	-	-	782,230,313
Direct credit facilities and Islamic financing	21,383,633	198,169,018	541,334,526	756,493,472	842,520,509	1,093,306,002	3,453,207,160
Financial assets at amortized cost	52,036,571	5,002,323	-	2,804,181	141,921,436	27,080,906	228,845,417
Other	18,125,106	-	-	-	-	16,657,105	34,782,211
December 31, 2021	1,449,677,936	203,171,341	541,334,526	759,297,653	984,441,945	1,137,044,013	5,074,967,414
December 31, 2020	1,316,186,103	259,332,866	464,595,712	744,139,735	903,933,526	1,083,779,052	4,771,966,994

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

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

	Stage (1)	Stage (2)	Stage (3)	2020
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial sector	1,295,140,453	20,901,868	143,782	1,316,186,103
Industrial	172,083,704	82,132,434	5,116,728	259,332,866
Commercial	295,620,054	143,627,776	25,347,882	464,595,712
Real estate	327,093,891	398,380,341	18,665,503	744,139,735
Securities	-	-	-	-
Public sector	903,933,526	-	-	903,933,526
Others	758,784,848	305,978,810	19,015,394	1,083,779,052
Total	3,752,656,476	951,021,229	68,289,289	4,771,966,994

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, 2021:

Macro-economic variables	Scenario used	Assigned weight for each scenario (%)	Percentage change in macro-economic variables (%) 2021	Percentage change in macro-economic variables (%) 2022	Percentage change in macro-economic variables (%) 2023	Percentage change in macro-economic variables (%) 2024	Percentage change in macro-economic variables (%) 2025	Percentage change in macro-economic variables (%) 2026
<u>GDP</u>	Base case	0	5.69	2.70	(0.31)	(0.26)	(0.23)	(0.23)
	Best case	0	13.40	10.41	7.40	7.45	7.48	7.48
	Worst case	100	1.84	(1.16)	(4.17)	(4.12)	(4.09)	(4.09)
<u>Unemployment rates</u>	Base case	0	(12.42)	(7.80)	0.77	0.76	0.76	0.76
	Best case	0	(13.19)	(8.36)	0.83	0.82	0.82	0.82
	Worst case	100	(12.07)	(7.55)	0.74	0.74	0.73	0.73

Following are the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at December 31, 2020:

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 (%)
			2020	2021	2022	2023	2024	2025
<u>GDP</u>	Base case	50	(19.10)	5.69	2.70	(0.31)	(0.26)	(0.23)
	Best case	0	(11.39)	13.40	10.41	7.40	7.45	7.48
	Worst case	50	(22.96)	1.84	(1.16)	(4.17)	(4.12)	(4.09)
<u>Unemployment rates</u>	Base case	50	26.77	(12.42)	(7.80)	0.77	0.76	0.76
	Best case	0	19.37	(13.19)	(8.36)	0.83	0.82	0.82
	Worst case	50	30.47	(12.07)	(7.55)	0.74	0.74	0.73

Classification of debt securities based on risk rating:

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

	2021	2020
	Financial assets at amortized cost	Financial assets at amortized cost
Credit rating	U.S. \$	U.S. \$
Private sector:		
From A- to AAA	41,002,749	48,962,473
From B- to BBB+	35,786,943	43,879,195
Unrated	12,500,000	8,000,000
Governments and public sector	142,718,370	106,941,618
Total	232,008,062	207,783,286

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:

	2021		2020	
		Interest income sensitivity (consolidated income statement)		Interest income sensitivity (consolidated income statement)
Currency	Increase in interest rate (basis points)	U.S. \$	Increase in interest rate (basis points)	U.S. \$
US Dollar	10	688,486	10	1,328,727
Jordanian Dinar	10	346,492	10	244,744
New Israeli Shekels	10	663,217	10	1,264,542
Other currencies	10	(40,083)	10	15,781

Interest rate re-pricing sensitivity gap

December 31, 2021

	Interest rate re-pricing sensitivity gap						Total
	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	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Assets							
Cash and balances with Palestine Monetary Authority	-	75,246,827	-	-	-	1,704,333,062	1,779,579,889
Balances at Banks and financial institutions	441,817,421	28,494,563	33,421,174	-	-	278,497,155	782,230,313
Financial assets at fair value through profit or loss	-	-	-	-	-	10,253,849	10,253,849
Direct credit facilities and Islamic financing	524,042,794	313,172,856	316,743,294	1,342,669,007	956,579,209	-	3,453,207,160
Financial assets at fair value through other comprehensive income	-	-	-	-	-	42,255,262	42,255,262
Financial assets at amortized cost	14,414,319	18,660,030	12,472,978	38,574,030	144,724,060	-	228,845,417
Investment in associates and a joint venture	-	-	-	-	-	9,671,052	9,671,052
Investment properties	-	-	-	-	-	25,962,178	25,962,178
Property, plant and equipment	-	-	-	-	-	115,897,814	115,897,814
Projects in progress	-	-	-	-	-	1,366,792	1,366,792
Intangible assets	-	-	-	-	-	14,613,893	14,613,893
Other assets	7,177,139	4,676,273	4,676,273	2,567,138	-	25,241,364	44,338,187
Total assets	987,451,673	440,250,549	367,313,719	1,383,810,175	1,101,303,269	2,228,092,421	6,508,221,806
Liabilities							
Palestine Monetary Authority deposits	51,109,509	171,329,598	-	-	20,000,000	-	242,439,107
Banks and financial institutions' deposits	99,005,994	20,997,040	-	-	58,834	-	120,061,868
Customers' deposits	487,273,630	350,430,712	332,414,494	518,218,265	125,034,520	3,200,179,705	5,013,551,326
Cash margins	132,793,473	27,092,682	36,275,334	68,443,218	26,983,569	-	291,588,276
Subordinated loan	-	-	-	7,500,000	65,000,000	-	72,500,000
Loans and borrowings	672,125	-	672,125	1,386,411	45,711,839	-	48,442,500
Istidama loans from Palestine Monetary Authority	-	-	-	943,406	14,848,893	6,515,253	22,307,552
Sundry provisions	-	-	-	-	-	50,983,323	50,983,323
Taxes provisions	-	-	-	-	-	21,492,314	21,492,314
Lease liabilities	-	-	-	-	-	31,900,160	31,900,160
Other liabilities	823,573	250,000	8,557,053	8,191,008	-	79,034,317	96,855,951
TOTAL LIABILITIES	771,678,304	570,100,032	377,919,006	604,682,308	297,637,655	3,390,105,072	6,012,122,377
Equity							
Paid-in share capital	-	-	-	-	-	217,433,527	217,433,527
Additional paid-in capital	-	-	-	-	-	29,575,688	29,575,688
Statutory reserve	-	-	-	-	-	61,883,607	61,883,607
Voluntarily reserve	-	-	-	-	-	246,361	246,361
General Banking risks reserve	-	-	-	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	(1,692,549)	(1,692,549)
Retained earnings	-	-	-	-	-	77,612,532	77,612,532
Total equity holders of the Bank	-	-	-	-	-	435,371,043	435,371,043
Non-controlling interests	-	-	-	-	-	60,728,386	60,728,386
Total equity	-	-	-	-	-	496,099,429	496,099,429
Total liabilities and equity	771,678,304	570,100,032	377,919,006	604,682,308	297,637,655	3,886,204,501	6,508,221,806
Interest rate re-pricing sensitivity gap	215,773,369	(129,849,483)	(10,605,287)	779,127,867	803,665,614	(1,658,112,080)	-
Cumulative gap	215,773,369	85,923,886	75,318,599	854,446,466	1,658,112,080	-	-

December 31, 2020

	Interest rate re-pricing sensitivity gap						Total
	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	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Total assets	2,082,907,998	658,101,744	376,741,097	789,046,822	1,310,501,394	592,510,933	5,809,809,988
Total liabilities and equity	393,710,616	387,263,110	420,251,290	411,042,507	751,236,207	3,446,306,258	5,809,809,988
Interest rate re-pricing sensitivity gap	1,689,197,382	270,838,634	(43,510,193)	378,004,315	559,265,187	(2,853,795,325)	-
Cumulative gap	1,689,197,382	1,960,036,016	1,916,525,823	2,294,530,138	2,853,795,325	-	-

InterBank offered rate (IBOR) Reforms

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

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

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

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

Foreign currency risk

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

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

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

Currency	2021		2020	
	Increase in currency rate (%)	Effect on consolidated income statement U.S. \$	Increase in currency rate (%)	Effect on consolidated income statement U.S. \$
New Israeli Shekels	10	(282,760)	10	(74,376)
Other currencies	10	1,260,456	10	1,268,690

Following is the foreign currencies position of the Bank:

	JOD	ILS	Others	Total
December 31, 2021	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets				
Cash and balances with Palestine Monetary Authority	231,966,931	1,198,873,515	11,637,567	1,442,478,013
Balances at Banks and financial institutions	275,067,225	62,606,037	152,090,205	489,763,467
Financial assets at fair value through profit or loss	-	-	-	-
Direct credit facilities and Islamic financing	376,125,608	1,700,322,074	54,244,891	2,130,692,573
Financial assets at fair value through other comprehensive Income	32,162,331	-	1,677,959	33,840,290
Financial assets at amortized cost	69,149,674	40,256,326	4,296,101	113,702,101
Other assets	4,352,586	15,213,606	618,116	20,184,308
Forward contracts	-	45,774,249	1,263,536	47,037,785
Total assets	988,824,355	3,063,045,807	225,828,375	4,277,698,537
Liabilities				
Palestine Monetary Authority deposits	-	185,676,591	25,775,636	211,452,227
Banks and financial institutions' deposits	541,226	85,728,956	1,878,404	88,148,586
Customers' deposits	953,715,233	1,875,078,431	156,542,266	2,985,335,930
Cash margins	28,394,661	159,306,469	6,468,270	194,169,400
Loans and borrowings	-	-	13,442,500	13,442,500
Other liabilities	4,993,754	17,809,042	1,843,626	24,646,422
Forward deals	-	742,273,918	7,273,112	749,547,030
Total liabilities	987,644,874	3,065,873,407	213,223,814	4,266,742,095
Consolidated statement of financial position concentration, net	1,179,481	(2,827,600)	12,604,561	10,956,442
Off-balance sheet potential commitments	32,134,277	180,767,719	42,404,046	255,306,042
December 31, 2020				
Total assets	914,357,213	2,555,413,662	171,006,885	3,640,777,760
Total liabilities	913,610,951	2,556,157,307	158,319,986	3,628,088,244
Consolidated statement of financial position concentration, net	746,262	(743,645)	12,686,899	12,689,516
Off-balance sheet potential commitments	37,778,173	208,168,239	42,001,347	287,947,759

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:

		2021		2020	
	Increase in index	Effect on consolidated income statement	Effect On equity	Effect on consolidated income statement	Effect on equity
	(%)	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Market index					
Palestine Securities Exchange	10	50,092	1,748,100	973,854	748,358
Foreign markets	10	975,293	1,956,084	899,677	1,607,752

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, 2021 and 2020, 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, 2021	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets								
Cash and balances with Palestine Monetary Authority	1,779,579,889	-	-	-	-	-	-	1,779,579,889
Balances at Banks and financial institutions	590,695,912	71,806,945	33,421,175	-	-	-	86,306,281	782,230,313
Financial assets at fair value through profit or loss	-	-	-	10,253,849	-	-	-	10,253,849
Direct credit facilities and Islamic financing	185,159,286	238,974,733	280,788,331	410,642,794	935,042,903	1,402,599,113	-	3,453,207,160
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	42,255,262	42,255,262
Financial assets at amortized cost	14,414,320	18,660,030	12,472,978	38,574,030	92,772,467	51,951,592	-	228,845,417
Investment in associates	-	-	-	-	-	-	9,671,052	9,671,052
Investment properties	-	-	-	-	-	-	25,962,178	25,962,178
Property, plant and equipment	-	-	-	-	-	-	115,897,814	115,897,814
Projects in progress	-	-	-	-	-	-	1,366,792	1,366,792
Intangible assets	-	-	-	-	-	-	14,613,893	14,613,893
Other assets	9,668,411	13,975,857	4,676,273	2,567,138	-	-	13,450,508	44,338,187
Total assets	2,579,517,818	343,417,565	331,358,757	462,037,811	1,027,815,370	1,454,550,705	309,523,780	6,508,221,806
Liabilities								
Palestine Monetary Authority deposits	51,109,510	171,329,597	-	-	20,000,000	-	-	242,439,107
Banks and financial institutions' deposits	99,104,929	19,997,039	-	1,993	957,907	-	-	120,061,868
Customers' deposits	1,008,542,155	490,554,651	519,634,848	690,394,959	906,703,642	1,397,721,071	-	5,013,551,326
Cash margins	132,793,473	27,092,682	36,275,334	68,443,218	26,602,821	380,748	-	291,588,276
Subordinated loan	-	-	-	7,500,000	30,000,000	35,000,000	-	72,500,000
Loans and borrowings	672,125	-	672,125	1,386,411	10,990,087	34,721,752	-	48,442,500
Istidama loans from Palestine Monetary Authority	-	-	-	943,406	14,848,893	6,515,253	-	22,307,552
Sundry provisions	-	-	-	-	-	-	50,983,323	50,983,323
Taxes provisions	-	-	-	21,492,314	-	-	-	21,492,314
Lease liabilities	-	-	-	-	-	-	31,900,160	31,900,160
Other liabilities	74,257,348	250,000	8,557,053	13,476,492	-	-	315,058	96,855,951
Total liabilities	1,366,479,540	709,223,969	565,139,360	803,638,793	1,010,103,350	1,474,338,824	83,198,541	6,012,122,377
Equity								
Paid-in share capital	-	-	-	-	-	-	217,433,527	217,433,527
Additional paid-in capital	-	-	-	-	-	-	29,575,688	29,575,688
Statutory reserve	-	-	-	-	-	-	61,883,607	61,883,607
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General Banking risks reserve	-	-	-	-	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	(1,692,549)	(1,692,549)
Retained earnings	-	-	-	-	-	-	77,612,532	77,612,532
Total equity holders of the Bank	-	-	-	-	-	-	435,371,043	435,371,043
Non-controlling interests	-	-	-	-	-	-	60,728,386	60,728,386
Total equity	-	-	-	-	-	-	496,099,429	496,099,429
Total liabilities and equity	1,366,479,540	709,223,969	565,139,360	803,638,793	1,010,103,350	1,474,338,824	579,297,970	6,508,221,806
Maturity gap	1,213,038,278	(365,806,404)	(233,780,603)	(341,600,982)	17,712,020	(19,788,119)	(269,774,190)	-
Cumulative gap	1,213,038,278	847,231,874	613,451,271	271,850,289	289,562,309	269,774,190	-	-

December 31, 2020	Less than a month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months up to 1 year	More than 1 year to 3 years	More than 3 years	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Assets								
Cash and balances with Palestine Monetary Authority	1,323,410,056	-	-	-	-	-	-	1,323,410,056
Balances at Banks and financial institutions	562,165,994	91,086,680	-	18,273,667	-	-	76,332,386	747,858,727
Financial assets at fair value through profit or loss	-	-	-	-	-	-	18,735,305	18,735,305
Direct credit facilities and Islamic financing	620,954,494	222,027,670	128,490,920	347,312,596	797,016,967	1,150,945,941	-	3,266,748,588
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	28,559,024	28,559,024
Financial assets at amortized cost	5,003,214	9,144,037	7,419,893	31,193,954	74,169,222	78,568,910	-	205,499,230
Investment in associates and a joint venture	-	-	-	-	-	-	5,946,380	5,946,380
Investment properties	-	-	-	-	-	-	25,884,919	25,884,919
Property, plant and equipment and right of use assets	-	-	-	-	-	-	121,430,377	121,430,377
Projects in progress	-	-	-	-	-	-	2,680,297	2,680,297
Intangible assets	-	-	-	-	-	-	15,428,395	15,428,395
Other assets	-	-	-	-	-	-	47,628,690	47,628,690
Total assets	2,511,533,758	322,258,387	135,910,813	396,780,217	871,186,189	1,229,514,851	342,625,773	5,809,809,988
Liabilities								
Palestine Monetary Authority deposits	44,302,800	54,079,649	69,964,853	-	-	-	-	168,347,302
Banks and financial institutions' deposits	82,088,201	-	-	-	-	-	-	82,088,201
Customers' deposits	3,112,344,124	259,184,069	397,792,876	288,772,405	207,113,578	315,728,322	-	4,580,935,374
Cash margins	18,861,866	14,611,855	22,098,100	43,427,650	41,198,799	77,337,132	35,553,478	253,088,880
Subordinated loan	-	-	-	-	22,500,000	52,500,000	-	75,000,000
Loans and borrowings	-	-	-	-	1,000,000	26,636,180	-	27,636,180
Istidama loans from Palestine Monetary Authority	321,123	35,625	360,314	1,195,666	7,222,198	-	-	9,134,926
Sundry provisions	-	-	-	-	-	-	48,851,375	48,851,375
Taxes provisions	-	-	-	4,610,652	-	-	-	4,610,652
Lease liabilities	-	-	-	-	-	-	33,453,914	33,453,914
Other liabilities	92,840,360	-	-	-	-	-	302,153	93,142,513
Total liabilities	3,350,758,474	327,911,198	490,216,143	338,006,373	279,034,575	472,201,634	118,160,920	5,376,289,317
Equity								
Paid-in share capital	-	-	-	-	-	-	208,080,000	208,080,000
Additional paid-in capital	-	-	-	-	-	-	24,848,415	24,848,415
Statutory reserve	-	-	-	-	-	-	56,970,341	56,970,341
Voluntarily reserve	-	-	-	-	-	-	246,361	246,361
General Banking risks reserve	-	-	-	-	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	-	-	-	-	40,000,000	40,000,000
Fair value reserve	-	-	-	-	-	-	(4,999,792)	(4,999,792)
Retained earnings	-	-	-	-	-	-	43,763,159	43,763,159
Total equity holders of the Bank	-	-	-	-	-	-	379,220,361	379,220,361
Non-controlling interests	-	-	-	-	-	-	54,300,310	54,300,310
Total equity	-	-	-	-	-	-	433,520,671	433,520,671
Total liabilities and equity	3,350,758,474	327,911,198	490,216,143	338,006,373	279,034,575	472,201,634	551,681,591	5,809,809,988
Maturity gap	(839,224,716)	(5,652,811)	(354,305,330)	58,773,844	592,151,614	757,313,217	(209,055,818)	-
Cumulative gap	(839,224,716)	(844,877,527)	(1,199,182,857)	(1,140,409,013)	(548,257,399)	209,055,818	-	-

The following table shows the balances of the Bank's undiscounted consolidated financial liabilities as on December 31, 2021 and 2020 according to the contractual maturity period:

	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. \$
December 31, 2021								
Liabilities								
Palestine Monetary Authority deposits	51,109,510	163,624,631	6,708,815	21,039,120	-	-	-	242,482,076
Banks and financial institutions' deposits	19,987,102	98,060,606	2,130,219	-	-	-	-	120,177,927
Customers' deposits	1,018,030,578	727,796,802	539,533,586	714,022,949	932,211,283	1,082,358,276	-	5,013,953,474
Cash margins	133,909,537	27,580,217	37,318,902	69,870,400	27,331,643	475,459	-	296,486,158
Subordinated loan	-	-	2,159,129	5,192,189	18,300,451	50,109,210	-	75,760,979
Loans and borrowings	-	-	2,340,912	11,519,790	35,763,405	-	-	49,624,107
Istidama loans from Palestine Monetary Authority	-	-	-	12,948,123	10,802,480	-	-	23,750,603
Sundry provisions	-	-	-	-	-	-	50,983,323	50,983,323
Taxes provisions	-	-	-	21,492,314	-	-	-	21,492,314
Lease liabilities	-	1,230,191	2,309,412	3,223,981	8,819,921	16,889,821	-	32,473,326
Other liabilities	75,310,702	1,258,500	8,947,993	11,469,502	-	-	-	96,986,697
Total liabilities	1,298,347,429	1,019,550,947	601,448,968	870,778,368	1,033,229,183	1,149,832,766	50,983,323	6,024,170,984
Total assets according to expected maturity	2,375,606,668	433,229,339	320,941,592	465,988,836	1,037,133,755	1,029,169,682	847,241,501	6,509,311,373
	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. \$
December 31, 2020								
Liabilities								
Palestine Monetary Authority deposits	49,953,381	56,620,380	71,014,326	-	-	-	-	177,588,087
Banks and financial institutions' deposits	82,432,474	2,056,852	-	-	-	-	-	84,489,326
Customers' deposits	3,135,945,319	270,847,097	416,412,216	301,414,545	212,979,173	324,568,715	-	4,662,167,065
Cash margins	19,031,623	14,743,362	22,599,328	44,572,274	42,481,631	79,088,451	35,873,447	258,390,116
Subordinated loan	-	-	-	-	24,255,000	56,595,000	-	80,850,000
Loans and borrowings	-	-	-	-	1,030,000	27,435,265	-	28,465,265
Istidama loans from Palestine Monetary Authority	322,729	35,803	362,116	1,201,644	7,242,378	-	-	9,164,670
Sundry provisions	-	-	-	-	-	-	41,423,327	41,423,327
Taxes provisions	-	-	-	1,439,197	-	-	-	1,439,197
Lease liabilities	-	-	-	-	-	-	24,693,477	24,693,477
Other liabilities	67,062,175	-	-	-	-	-	125,341	67,187,516
Total liabilities	3,354,747,701	344,303,494	510,387,986	348,627,660	287,988,182	487,687,431	102,115,592	5,435,858,046
Total assets according to maturity	2,511,533,758	322,258,387	135,910,813	396,780,217	871,186,189	1,229,514,854	342,625,770	5,809,809,988

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, 2021:

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

The table below shows the calculation of the liquidity coverage ratio for the year ending December 31, 2020:

	Amount before discount rates / average flows	Amount after discount rates / average flows
	U.S. \$	U.S. \$
Total high quality liquid assets	<u>1,520,620,997</u>	<u>1,438,616,130</u>
Retail deposits including small institutions' deposits:		
C- Stable deposits	2,177,506,688	132,692,626
D- Less stable deposits	1,481,602,842	114,412,848
Deposits and other unguaranteed facilities for companies without retail and small institutions' customers:		
C- Operational deposits	205,649,214	51,412,303
D- Non-operational deposits	<u>1,287,438,836</u>	<u>421,793,585</u>
Guaranteed financing and deposits	5,152,197,580	720,311,362
Non-cancelled and cancelled credit lines and required liquidity within 30 days	473,124,725	143,678,057
Any other cash outflows	<u>191,716,240</u>	<u>10,008,559</u>
Total cash outflows	<u>5,817,038,546</u>	<u>873,997,978</u>
Guaranteed lending	87,191,770	43,595,885
Cash inflow from performing loans	<u>595,719,901</u>	<u>339,904,780</u>
Total cash inflow	<u>682,911,671</u>	<u>383,500,665</u>
Net cash outflow after adjustments		<u>490,497,313</u>
Total high-quality assets after adjustments		1,438,616,130
Net cash outflow after adjustment		<u>490,497,313</u>
Liquidity Coverage Ratio (%)		<u>293</u>

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, 2021:

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

The table below shows the calculation of the net stable financing ratio for the year ending on December 31, 2020:

Description	2020 U.S. \$
Regulatory capital	511,170,112
Stable retail deposits and small institutions	1,083,928,803
Less stable retail deposits and small institutions	2,188,699,326
Guaranteed and unguaranteed financing (deposits)	534,997,068
Other deposits and financing	27,636,180
Other commitments (not included in previous categories)	179,346,245
Gross stable financing available	4,525,777,734
Level 1 unrestricted high quality liquid assets	107,890
Level 2 -type (A) unrestricted high quality liquid assets	17,101,256
Level 2 -type (B) unrestricted high quality liquid assets	40,522,545
Loans	1,210,775,780
Housing loans not mortgaged	136,646,352
Financial assets issued or guaranteed by Banks and financial institutions	36,778,100
Other unquoted investments	54,911,030
Other quoted investments	88,652,117
Non-performing loans	11,820,678
Other assets	455,336,141
Contingent non-cancelled and cancelled credit facilities and liquidity	18,187,177
Other future and potential financing commitments	9,762,041
Other non-contractual commitments	2,072,928
Off balance sheet exposures not included in the previous categories	19,442
Total stable financing required	2,082,693,477
Net stable financing ratio	217%

48. Maturities of assets and liabilities

The following table depicts the analysis of assets and liabilities according to their maturities:

	December 31, 2021			
	Less than a year	More than a year	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>Assets</u>				
Cash and balances with Palestine Monetary Authority	1,779,579,889	-	-	1,779,579,889
Balances at Banks and financial institutions	695,924,032	-	86,306,281	782,230,313
Financial assets at fair value profit or loss	10,253,849	-	-	10,253,849
Direct credit facilities and Islamic financing	1,115,565,144	2,337,642,016	-	3,453,207,160
Financial assets at fair value through other comprehensive income	-	-	42,255,262	42,255,262
Financial assets at amortized cost	84,121,358	144,724,059	-	228,845,417
Investment in associates	-	-	9,671,052	9,671,052
Investment properties	-	-	25,962,178	25,962,178
Property, plant and equipment	-	-	115,897,814	115,897,814
Projects in progress	-	-	1,366,792	1,366,792
Intangible assets	-	-	14,613,893	14,613,893
Other assets	30,887,679	-	13,450,508	44,338,187
Total assets	3,716,331,951	2,482,366,075	309,523,780	6,508,221,806
<u>Liabilities</u>				
Palestine Monetary Authority deposits	222,439,107	20,000,000	-	242,439,107
Banks and financial institutions' deposits	119,103,961	957,907	-	120,061,868
Customers' deposits	2,709,126,613	2,304,424,713	-	5,013,551,326
Cash margins	264,604,707	26,983,569	-	291,588,276
Subordinated loan	7,500,000	65,000,000	-	72,500,000
Loans and borrowings	2,730,661	45,711,839	-	48,442,500
Istidama loans from Palestine Monetary Authority	943,406	21,364,146	-	22,307,552
Sundry Provisions	-	-	50,983,323	50,983,323
Taxes provisions	21,492,314	-	-	21,492,314
Lease liabilities	-	-	31,900,160	31,900,160
Other liabilities	96,540,893	-	315,058	96,855,951
Total liabilities	3,444,481,662	2,484,442,174	83,198,541	6,012,122,377
<u>Equity</u>				
Paid-in share capital	-	-	217,433,527	217,433,527
Additional paid-in capital	-	-	29,575,688	29,575,688
Statutory reserve	-	-	61,883,607	61,883,607
Voluntarily reserve	-	-	246,361	246,361
General Banking risks reserve	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	40,000,000	40,000,000
Fair value reserve	-	-	(1,692,549)	(1,692,549)
Retained earnings	-	-	77,612,532	77,612,532
Total equity holders of the Bank	-	-	435,371,043	435,371,043
Non-controlling interests	-	-	60,728,386	60,728,386
Total equity	-	-	496,099,429	496,099,429
Total liabilities and equity	3,444,481,662	2,484,442,174	579,297,970	6,508,221,806
Maturity gap	271,850,289	(2,076,099)	(269,774,190)	-
Cumulative maturity gap	271,850,289	269,774,190	-	-

	December 31, 2020			
	Less than a year	More than a year	Without maturity	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>Assets</u>				
Cash and balances with Palestine Monetary Authority	1,323,410,056	-	-	1,323,410,056
Balances at Banks and financial institutions	671,526,341	-	76,332,386	747,858,727
Financial assets at fair value profit or loss	-	-	18,735,305	18,735,305
Direct credit facilities and Islamic financing	1,318,785,680	1,947,962,908	-	3,266,748,588
Financial assets at fair value through other comprehensive income	-	-	28,559,024	28,559,024
Financial assets at amortized cost	52,761,098	152,738,132	-	205,499,230
Investment in associates	-	-	5,946,380	5,946,380
Investment properties	-	-	25,884,919	25,884,919
Property, plant and equipment	-	-	121,430,377	121,430,377
Projects in progress	-	-	2,680,297	2,680,297
Intangible assets	-	-	15,428,395	15,428,395
Other assets	36,518,160	-	11,110,530	47,628,690
Total assets	3,403,001,335	2,100,701,040	306,107,613	5,809,809,988
<u>Liabilities</u>				
Palestine Monetary Authority deposits	168,347,302	-	-	168,347,302
Banks and financial institutions' deposits	82,088,201	-	-	82,088,201
Customers' deposits	4,058,093,474	522,841,900	-	4,580,935,374
Cash margins	98,999,471	118,535,931	35,553,478	253,088,880
Subordinated loan	-	75,000,000	-	75,000,000
Loans and borrowings	-	27,636,180	-	27,636,180
Istidama loans from Palestine Monetary Authority	1,912,728	7,222,198	-	9,134,926
Sundry Provisions	-	-	48,851,375	48,851,375
Taxes provisions	4,610,652	-	-	4,610,652
Lease liabilities	-	-	33,453,914	33,453,914
Other liabilities	92,840,360	-	302,153	93,142,513
Total liabilities	4,506,892,188	751,236,209	118,160,920	5,376,289,317
<u>Equity</u>				
Paid-in share capital	-	-	208,080,000	208,080,000
Additional paid-in capital	-	-	24,848,415	24,848,415
Statutory reserve	-	-	56,970,341	56,970,341
Voluntarily reserve	-	-	246,361	246,361
General Banking risks reserve	-	-	10,311,877	10,311,877
Pro-cyclicality reserve	-	-	40,000,000	40,000,000
Fair value reserve	-	-	(4,999,792)	(4,999,792)
Retained earnings	-	-	43,763,159	43,763,159
Total equity holders of the Bank	-	-	379,220,361	379,220,361
Non-controlling interests	-	-	54,300,310	54,300,310
Total equity	-	-	433,520,671	433,520,671
Total liabilities and equity	4,506,892,188	751,236,209	551,681,591	5,809,809,988
Maturity gap	(1,103,890,853)	1,349,464,831	(245,573,978)	-
Cumulative maturity gap	(1,103,890,853)	245,573,978	-	-

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 is the Bank's business segments according to operations:

December 31, 2021	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Gross revenues	122,796,493	154,847,723	30,506,825	8,429,423	316,580,464
Provision of expected credit losses	(297,605)	(22,183,466)	(1,833,077)	(300,000)	(24,614,148)
Written off credit facilities not previously provided for	(2,052,766)	-	-	-	(2,052,766)
Segment results					289,913,550
Unallocated expenses					(205,308,697)
Profit before taxes					84,604,853
Taxes expense					(28,350,526)
Profit for the year					56,254,327
Other information					
Depreciation and amortization					(17,927,102)
Capital expenditures					(12,404,295)
Gross segment assets	1,141,429,650	2,311,777,510	2,852,835,782	202,178,864	6,508,221,806
Gross segment liabilities	3,486,088,530	1,819,051,072	505,751,027	201,231,748	6,012,122,377
December 31, 2020	Retail	Corporate, institutions and public sector	Treasury	Other	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Gross revenues	105,703,929	151,329,296	21,062,975	525,550	278,621,750
Provision of expected credit losses	(6,135,988)	(32,954,163)	(367,635)	-	(39,457,786)
Written off credit facilities not previously provided for	(1,532,623)	-	-	-	(1,532,623)
Segment results					237,631,341
Unallocated expenses					(197,470,973)
Profit before taxes					40,160,368
Taxes expense					(17,748,220)
Profit for the year					22,412,148
Other information					
Depreciation and amortization					18,858,916
Capital expenditures					15,813,134
Gross segment assets	943,686,036	2,061,048,261	2,321,130,346	483,945,345	5,809,809,988
Gross segment liabilities	2,833,576,861	1,703,341,785	385,159,526	454,211,145	5,376,289,317

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	
	2021 U.S. \$	2020 U.S. \$	2021 U.S. \$	2020 U.S. \$	2021 U.S. \$	2020 U.S. \$
Gross revenues	299,054,139	262,541,874	17,526,325	16,079,876	316,580,464	278,621,750
Gross segment assets	5,587,593,535	4,796,397,240	920,628,271	1,013,412,748	6,508,221,806	5,809,809,988
Capital expenditures	12,404,295	15,813,134	-	-	12,404,295	15,813,134

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. The Bank's General Assembly approved, in its ordinary meeting held on March 31, 2021, to raise the Bank's paid-in share capital by U.S. \$ 2,080,800 through share distributions. (note 1&28)

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 2021 is computed in accordance with the PMA's instructions No. (8/2018) derived from Basel III international regulations.

The following are the capital adequacy rates:

	2021			2020		
	Amount U.S. \$	Percentage to assets %	Percentage to risk - weighted assets %	Amount U.S. \$	Percentage to assets %	Percentage to risk - weighted assets %
Regulatory capital	546,457,128	8.40	15.22	499,707,546	8.60	14.24
Basic capital	429,801,647	6.60	11.97	376,912,943	6.49	10.74

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 2021 is computed in accordance with PMA instructions No. (8/2018) derived from Basel III international regulations, as shown in the following table:

	December 31, 2021	December 31, 2020
	U.S. \$	U.S. \$
Net common stocks (CET 1)	423,226,602	370,779,348
The first bracket of capital	429,801,647	376,912,943
The second bracket of capital	116,655,481	122,794,603
Capital base	546,457,128	499,707,546
Credit risk	3,107,256,594	3,018,930,340
Market risk	34,291,742	66,781,049
Operational risk	447,851,084	422,705,857
Total risk weighted assets	3,589,399,420	3,508,417,246
Percentage of common stocks (CET 1) to risk weighted assets	11,79%	10,57%
Percentage of the first bracket of capital to risk weighted assets	11,97%	10,74%
Percentage of the second bracket of capital to risk weighted assets	3,25%	3,50%
Percentage of the first bracket to assets	6,60%	6,49%
Percentage of regulatory capital to assets	8,40%	8,60%
Capital adequacy ratio	15,22%	14,24%

51. Commitments and contingent liabilities

The total outstanding commitments and contingent liabilities are as follows:

	2021	2020
	U.S. \$	U.S. \$
Letters of guarantees	206,492,217	191,064,802
Letters of credit	46,069,513	32,823,758
Acceptances	9,417,798	12,810,821
Unutilized direct credit facilities limits	286,553,199	363,743,554
Others	322,700	388,850
	548,855,427	600,831,785
Less:		
Provision of expected credit losses	(315,086)	(302,153)
	548,540,341	600,529,632

Outstanding forward deals contracts for the sale and purchase of currencies for existing customers as at December 31, 2021 and December 31, 2020 amounted to U.S. \$ 35,041,435 and U.S. \$ 32,351,745, 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 Islamic financing is as follows:

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	550,791,322	50,040,463	-	600,831,785
Net change during the year	(104,051,337)	52,074,979	-	(51,976,358)
Balance ending of the year	<u>446,739,985</u>	<u>102,115,442</u>	<u>-</u>	<u>548,855,427</u>
	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	456,664,813	62,229,854	-	518,894,667
Net change during the year	94,126,509	(12,189,391)	-	81,937,118
Balance ending of the year	<u>550,791,322</u>	<u>50,040,463</u>	<u>-</u>	<u>600,831,785</u>

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	298,586	3,567	-	302,153
Net expected credit losses for the year	(156,179)	169,112	-	12,933
Balance ending of the year	<u>142,407</u>	<u>172,679</u>	<u>-</u>	<u>315,086</u>
	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance, beginning of the year	235,933	10,111	-	246,044
Net expected credit losses for the year	62,653	(6,544)	-	56,109
Balance ending of the year	<u>298,586</u>	<u>3,567</u>	<u>-</u>	<u>302,153</u>

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, 2021 and 2020 was (248) and (206), respectively and that's within the normal course of business with a total amount of U.S. \$ 69,672,366 and U.S. \$ 62,469,846, 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 second quarter of 2022.

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

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. 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.

55. The impact of Coronavirus (Covid-19) on the calculation of expected credit loss provision and the relevant instructions of the Palestine Monetary Authority

Expected credit loss provision calculation

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

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

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

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

Relevant PMA instructions

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

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

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

Additionally, the Arab Islamic Bank (subsidiary) has postponed/ restructured the financing installments for customers of the affected economic sectors both companies and individuals, without additional returns in accordance, with PMA instructions No. (23/2020). The deferred profits are amortized over the extended contractual term of the financing. Based on the foregoing, the Bank has unified the accounting policies of its subsidiary when preparing the consolidated financial statements. This amendment has been treated with in accordance with IFRS (9). Modification of financing, such that the difference between the present value of future cash flows and the book value was recognized as losses resulting from modification of the Islamic financing of the subsidiary under net financing and investment income at an amount of U. S. \$ 3,364,410 in the consolidated income statement as at December 31, 2020 (note 33). During the year 2021, the Bank recovered the full value of these losses in the consolidated income statement, due to the maturity of all the modified Islamic financing by the end of the year 2021.

To compensate for these losses incurred by the Bank, during the year the Arab Islamic Bank received a deposit from the PMA of \$20 million at an interest rate below the market interest rate with a maturity ending in 2023 that was classified as government grant. This deposit mainly relates to compensation for loss of modification and all related costs that arose from deferring installments. The interest rate of the subsidized financing was calculated on a regular basis, in accordance with the accounting requirements of government grants. Accordingly, a total income of \$1,428,011 was recorded in the consolidated income statement for the year ended December 31, 2020 under the net financing and investment income item (note 33), where the calculation included that the management applied some estimates in recognizing and measuring revenue from this grant. An expense of \$1,428,011 has been charged to the 2021 consolidated statement of income relating to the adjustment of day one profit. This is to harmonize the accounting treatment between the settlement of government grants and the losses for which the Bank was compensated.

Istidama Program Loans

The Bank and its subsidiary granted loans through PMA support program, to support small and medium enterprises and to enable them to maintain their businesses and employees through financing program with an interest rate of 3% based on the instructions of PMA (Istidama Program).

56. Comparative figures

Some of the balances of the financial statements as at December 31, 2020 have been reclassified to match the presentation of the balances of the financial statements as at December 31, 2021. These reclassifications do not affect the profits of previous years or equity.

57. Subsequent events

Subsequent to the consolidated financial statements date, the Bank's Board of Directors, during its meeting held on February 27, 2022, decided to recommend to the General Assembly the distribution of dividends to shareholders by 12% of the paid-in capital, equivalent to U.S. \$ 26,094,067, by distributing U.S. \$ 4,587,847 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, in addition to the capitalization of U.S. \$ 1,937,203 of the Banking risk reserve through stock dividends of 0.89% of the paid-in share capital.

Furthermore, and subsequent to the financial statements date, Ukraine was under war by Russia. For the Bank, the impact of this subsequent event is relevant in various ways. The Bank does not have any direct exposure in Russia or the Ukraine, however, indirectly, it may still be affected by recent or potential future developments. The impact of this on the Bank is expected to be limited and immaterial. Recent developments are likely to have an impact on global macro-economic developments, as the measures taken will directly influence global trade and logistics, and consequently economic growth. At this stage, it is still very difficult to predict what the (longer-term) macro-economic impact will be.



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