PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2021

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Independent Auditor's Report
to the shareholders of Palestine Islamic Bank

Opinion

We have audited the financial statements of Palestine Islamic Bank (the Bank), which comprise the statement of financial position as at December 31, 2021, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, and statement of earnings and disbursements prohibited by Shari'a for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2021, and its financial performance and its cash flows, and earnings and disbursements prohibited by Shari'a for the year then ended in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 financial statements as at December 31, 2021.These matters were addressed in the context of our audit of the 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 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 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 financial statements.

Key Audit Matter	Audit Procedures
Expected Credit Loss "ECL" provision: The process of estimating expected credit losses of customers' receivables and finances, balances and investment accounts at banks and financial institutions, cash and balances with Palestine Monetary Authority, financial assets at amortized cost and debt instruments through comprehensive income in accordance with the Islamic Financial Reporting Standard No. (30) is important, complex and requires significant judgment. Islamic Financial Reporting Standard No. (30) requires the use of the expected credit losses model. This requires the Bank's management to use several assumptions and estimates to determine the timing and value of expected credit losses as well as applying judgment to determine the inputs to the impairment measurement process including assessing collaterals and determining the date of default. Due to the importance of the judgements applied in Islamic Financial Reporting Standard No. (30) and credit exposures that form major portion of the Bank's assets, ECL was considered as Key Audit Matter. The total balance of Islamic financing, balances at banks and financial institutions and Palestine Monetary Authority Balances, financial assets at amortized cost and debt instruments through comprehensive income, of the Bank as at December 31, 2021 amounted to U.S. $ 1,381,147,271. The balance of the expected credit loss provision on these assets was U.S. $29,579,554 as at December 31, 2021. Accounting policies, estimates and significant accounting judgments, disclosure of provision for expected credit losses, and credit risk management are detailed in notes (2, 3, 4, 5, 8, 22, 32, 44, and 50) in the accompanying financial statements.	Our audit procedures included an understanding of the nature of the portfolios of customer receivables and financings, as well as an assessment of the internal control system used in the grant and recording process, credit control, and an evaluation of the effectiveness of the main procedures used in the granting and recording process. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively, as well as procedures for assessing the following: - The Bank's policy regarding the provision for expected credit losses in accordance with the Islamic Financial Reporting Standard No. (30). - Studying and understanding the expected credit loss model used in calculating provisions and its compatibility with the requirements of Islamic Financial Accounting Standard No. (30) and the relevant regulatory guidelines and directives. - Key assumptions and judgments relating to significant increase in credit risk, definition of default, and use of macroeconomic inputs to verify that reported ECL amounts reflect underlying credit quality and macroeconomic trends. - The appropriateness of the classification stages. - The appropriateness of the process of determining credit exposure in the event of default, including consideration of the cash flows resulting from repayment and the resulting calculations. - The appropriateness of the probability of default, the credit exposure at default and the percentage of loss assuming default for the different stages. - The appropriateness and objectivity of the internal evaluation of funds. - The correctness and appropriateness of the process of calculating expected credit losses. - For exposures moved between stages, we have checked the appropriateness of the Bank's determination of significant increase in credit risk in terms of timing, in addition to any deterioration in credit quality. - The process of calculating the expected credit losses for financing individually in addition to understanding the latest developments in financing in terms of cash flows and if there is any scheduling or structuring. - Legal agreements and attachments related to them to ensure the existence of guarantees and the existence of the legal right related to them. - We also assessed whether the disclosures of the financial statements appropriately reflect the requirements of the accounting standards for Islamic financial institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

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 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 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 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, and in accordance with AAOIFI, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the 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

Abdelkarim M.
Ernst + Young

Abdelkarim Mahmoud
License # 101/2017

Ramallah, Palestine
March 30, 2022

STATEMENT OF FINANCIAL POSITION
As at December 31, 2021

	Notes	December 31, 2021 U.S. $	December 31, 2020 U.S. $
Assets			
Cash and balances with Palestine Monetary Authority	3	441,197,039	340,336,885
Balances at banks and financial institutions	4	205,790,128	178,264,933
Direct Islamic financing	5	890,363,440	885,476,487
Financial assets at fair value through profit or loss	6	1,905,783	1,286,319
Financial assets at fair value through other comprehensive income	7	19,722,011	3,710,705
Financial assets at amortized cost	8	19,338,116	13,946,412
Investment in associates	9	11,578,192	11,669,721
Investment properties	10	13,617,990	8,375,539
Property, plant and equipment	11	25,998,655	27,368,410
Projects in progress	12	2,888,322	2,702,117
Right-of-use assets	13	6,938,016	8,067,525
Deferred tax assets	20	5,531,498	5,150,501
Intangible assets	14	786,499	874,374
Other assets	15	10,769,314	24,101,388
Total assets		1,656,425,003	1,511,331,316
Liabilities, unrestricted investment accounts and equity			
Liabilities			
Banks and financial institutions' deposits	16	183,114,561	190,545,199
Customers' deposits	17	321,267,408	325,999,812
Cash margins	18	68,145,170	71,385,535
Sundry provisions	19	10,512,490	9,217,580
Tax provisions	20	4,144,039	2,043,961
Lease liabilities	21	6,845,330	7,904,982
Other liabilities	22	22,676,786	13,326,670
Total liabilities		616,705,784	620,423,739
Unrestricted investment accounts	23	901,070,139	767,572,773
Equity			
Paid-in share capital	1	85,000,000	80,000,000
Additional paid-in capital		3,200,000	3,200,000
Statutory reserve	24	11,606,531	10,238,012
General banking risk reserve	24	4,384,678	4,384,678
Pro-cyclicality reserve	24	11,023,917	11,023,917
Investment properties reserve	10	187,345	187,345
Cumulative change in fair value	7	875,916	(753,171)
Retained earnings		22,370,693	15,054,023
Net equity		138,649,080	123,334,804
Total liabilities, unrestricted investment accounts and equity		1,656,425,003	1,511,331,316

The accompanying notes from 1 to 51 form part of these financial statements

INCOME STATEMENT
For the year ended December 31, 2021

	Notes	2021 U.S. $	2020 U.S. $
Revenues			
Investment and financing revenues	25	54,942,566	48,989,167
Less: Return on unrestricted investment accounts	26	(7,635,462)	(6,920,711)
Bank's share of income from financing and investments		47,307,104	42,068,456
Net commissions revenues	27	9,929,160	8,907,451
Foreign currency exchange gains		3,983,292	2,676,907
Bank's share of the associates' results of operations	9	375,719	147,510
Income from financial assets at fair value through profit or loss	6	619,464	-
Income from financial assets at amortized cost and other comprehensive income	8	588,701	838,600
Cash dividends	28	377,920	502,113
Other revenues	29	1,371,873	1,240,169
Total revenues		64,553,233	56,381,206
Expenses			
Personnel expenses	30	(20,502,504)	(18,967,797)
Other operating expenses	31	(13,082,818)	(10,741,133)
Provision for expected credit losses, net	32	(5,921,086)	(5,672,825)
Depreciation and amortization	11,13 and 14	(4,344,173)	(4,482,863)
Sundry provisions	19	(117,080)	(69,902)
Finance costs on lease liabilities	21	(212,093)	(229,416)
Losses from financial assets at fair value through profit or loss	6	-	(135,402)
Loss on impairment of investments properties	10	(1,187,388)	(24,452)
Palestine Monetary Authority penalties	33	(10,000)	(33,209)
Total expenses		(45,377,142)	(40,356,999)
Profit before taxes		19,176,091	16,024,207
Taxes expense	20	(5,490,902)	(4,854,484)
Profit for the year		13,685,189	11,169,723
Basic and diluted earnings per share	38	0.16	0.13

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2021

	Notes	2021	2020
		U.S. $	U.S. $
Profit for the year		13,685,189	11,169,723
Items that will not be reclassified to income statement in subsequent periods:			
Bank's share of the associates' other comprehensive income	7	(49,749)	(113,371)
Losses on revaluation of investment properties	10	-	(94,933)
Deferred taxes	10	-	25,332
Change in fair value of financial assets	7	1,678,836	(366,714)
Net other comprehensive income		1,629,087	(549,686)
Net comprehensive income for the year		15,314,276	10,620,037

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2021

			Reserves						
	Paid-in share capital	Additional paid-in capital	Statutory	General banking risk	Pro-cyclicality	Investment properties	Cumulative change in fair value	Retained earnings	Net equity
December 31, 2021	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, as at January 1, 2021	80,000,000	3,200,000	10,238,012	4,384,678	11,023,917	187,345	(753,171)	15,054,023	123,334,804
Profit for the year	-	-	-	-	-	-	-	13,685,189	13,685,189
Other comprehensive income	-	-	-	-	-	-	1,629,087	-	1,629,087
Total comprehensive income for the year	-	-	-	-	-	-	1,629,087	13,685,189	15,314,276
Transfer to reserves	-	-	1,368,519	-	-	-	-	(1,368,519)	-
Stock dividends distributions (note 34)	5,000,000	-	-	-	-	-	-	(5,000,000)	-
Balance, as at December 31, 2021	85,000,000	3,200,000	11,606,531	4,384,678	11,023,917	187,345	875,916	22,370,693	138,649,080
December 31, 2020									
Balance, as at January 1, 2020	77,000,000	3,200,000	9,121,040	4,384,678	11,023,917	256,946	(273,086)	8,001,272	112,714,767
Profit for the year	-	-	-	-	-	-	-	11,169,723	11,169,723
Other comprehensive income	-	-	-	-	-	(69,601)	(480,085)	-	(549,686)
Total comprehensive income for the year	-	-	-	-	-	(69,601)	(480,085)	11,169,723	10,620,037
Transfer to reserves	-	-	1,116,972	-	-	-	-	(1,116,972)	-
Stock dividends distributions (note 34)	3,000,000	-	-	-	-	-	-	(3,000,000)	-
Balance, as at December 31, 2020	80,000,000	3,200,000	10,238,012	4,384,678	11,023,917	187,345	(753,171)	15,054,023	123,334,804

STATEMENT OF CASH FLOWS
For the year ended December 31, 2021

	Notes	2021 U.S. $	2020 U.S. $
Operating activities			
Profit before taxes		19,176,091	16,024,207
Adjustments for:			
(Gain) loss on financial assets at fair value through profit or loss		(619,464)	135,402
Loss on impairment of investments properties		1,187,388	24,452
Sundry provisions		1,947,965	2,806,151
Depreciation and amortization		4,344,173	4,482,863
Bank's share of the associates' results of operations		(375,719)	(147,510)
Cash dividends		(377,920)	-
Provision for expected credit losses, net		5,921,086	5,672,825
Gain from disposal of lease liabilities		(29,025)	-
Loss (gain) on sale and disposal of Property, plant and equipment		86,517	(46,257)
Loss from disposal of projects in progress		-	260,181
Amortization of net discount and premium for financial assets at amortized cost and other comprehensive income		39,822	4,115
Gain from sale of investment properties		(61,268)	(3,368)
Finance costs on lease liabilities		212,093	229,416
		31,451,739	29,442,477
Changes in assets and liabilities:			
Statutory cash reserve		(16,501,686)	(34,799,602)
Restricted balances with Banks and financial institutions		(957,918)	(562,246)
Deposits at banks and financial institutions for more than three months		(25,269,832)	-
Banks and financial institutions Deposits for more than three months		3,779,517	25,000,000
Direct Islamic financing		(18,502,943)	(120,562,347)
Other assets		13,731,073	(11,068,927)
Customers' deposits		(4,732,404)	62,862,800
Cash margins		(3,240,365)	16,233,930
Other liabilities		9,298,085	(2,089,725)
Net cash flows used in operating activities before provisions and taxes		(10,944,734)	(35,543,640)
Taxes paid		(3,771,821)	(4,878,032)
Sundry provisions paid		(653,055)	(3,821,065)
Net cash flows used in operating activities		(15,369,610)	(44,242,737)
Investing activities			
Purchase of property, plant and equipment and intangible assets		(1,727,504)	(1,227,022)
Projects in progress additions		(364,935)	(270,261)
Cash dividends from associates		417,499	-
Cash dividends received		377,920	-
Matured financial assets at amortized cost		5,392,302	5,650,347
Purchase of financial assets at amortized cost		(10,590,382)	-
Sale of investment properties		1,187,202	185,000
Purchase of financial assets at fair value through other comprehensive income		(14,346,125)	-
Sale of Property, plant and equipment		-	112,253
Net cash flows (used in) from investing activities		(19,654,023)	4,450,317
Financing activities			
Lease liabilities paid		(1,307,314)	(1,418,929)
Unrestricted investment accounts		133,497,366	31,167,361
Net cash flows from financing activities		132,190,052	29,748,432
Increase (Decrease) in cash and cash equivalents		97,166,419	(10,043,988)
Cash and cash equivalents, beginning of the year		159,538,251	169,582,239
Cash and cash equivalents, end of the year	37	256,704,670	159,538,251

The accompanying notes from 1 to 51 form part of these financial statements

STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA'
For the year ended December 31, 2021

	Note	2021 U.S. $	2020 U.S. $
Earnings prohibited by Sharia'			
Balance, beginning of the year		12,393	18,086
Profit from direct Islamic financing		7,186	5,053
Profit received		31,415	-
Excess in cash		-	8,246
Total earnings prohibited by Sharia' at the end of year		50,994	31,385
Disbursements of earnings prohibited by Sharia'			
Donations		(46,912)	(18,086)
Foreign currency exchange		(280)	(906)
Total disbursements of earnings prohibited by Sharia'		(47,192)	(18,992)
Balance of earnings prohibited by Sharia' at the end of year	22	3,802	12,393

The accompanying notes from 1 to 51 form part of these financial statements

1. General

Palestine Islamic Bank P.L.C. (the Bank) was incorporated in Gaza City on December 16, 1995 in accordance with the Companies Law of 1929 and was registered under registration number (563200922).

The Bank commenced operations in early 1997. The Bank is licensed to provide banking services, financing, trading and investing activities in accordance with the directives of the Islamic Shari'a Rules through its headquarters in Ramallah and its twenty-four branches and twenty offices that are spread through Palestine.

During the year, The Islamic Company's ownership of Palestine Islamic Bank shares were reduced to 24.85%, accordingly the Islamic Company lost the ability to control Palestine Islamic Bank, and as a result, the Bank's financial statements will not be consolidated with any party.

The Bank's operations are subject to the supervision of Shari'a Supervisory Board (the Board), consisting of three members appointed by the General Assembly of the Bank. The Board's role is to review the Bank's activities and transactions to ensure the Bank's compliance with Islamic Shari'a Rules and Principles.

The Bank carries out banking, financial, commercial and investment activities in accordance with Islamic Shari'a Rules. The Bank's authorized share capital is U.S. $ 100,000,000 at U.S. $ 1 par value each. During 2020 its Paid-in share capital increased to U.S. $ 80,000,000, and during 2021, the Bank's Paid-in share capital was increased to U.S. $ 85,000,000 through stock dividends.

The total number of the Bank's staff is (658) and (668) as at December 31, 2021 and December 31, 2020, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors on March 7, 2022.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with the Financial Accounting and Auditing Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Shari'a Rules and Principles as determined by the Bank's Shari'a Supervisory Board,

The Bank's adhere to the laws in Palestine and Palestine Monetary Authority (PMA) regulations.

The financial statements have been prepared on a historical cost basis, the financial assets and financial liabilities are presented at fair value.

The financial statements have been presented in U.S. Dollars, which is the functional currency of the Bank.

The standards issued by the International Accounting Standard Board and the interpretations issued by International Financial Reporting Interpretations Committee of the International Accounting Standards Board are applied in case of the absence of accounting standards issued by the Accounting and Auditing Organizations for Islamic Financial Institutions, until AAOIFI issues new relevant standards.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the Banks financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020 except that the Bank has adopted the following amended standards as of January 1, 2021

Islamic Financial Accounting Standard 32 (Ijarah)

Islamic Financial Accounting Standard No. (32) "Ijarah" replaces Financial Accounting Standard No. (8) "Ijarah and Ijarah Muntahia Bittamleek". The standard sets out the principles relating to the recognition, measurement, presentation and disclosure of various types of leases as lessors and lessees.

The Bank has applied the requirements of Islamic Financial Accounting Standard No. (32) and there is no effect from the application of this standard on the Bank's financial statements, as part of the standard has replaced International Financial Reporting Standard No. (16), which was previously applied from the date of 1 December 2019.

Standards issued but not yet effective

The IASB and AAOIFI issued standards and interpretations that are not yet effective till the date of the financial statements listed below, the Bank intends to adopt these standards when they become effective:

Financial Accounting Standard 1 - Amended 2021 (Public Presentation and Disclosure in Financial Statements)

Financial Accounting Standard 1 – Revised 2021 "Public Presentation and Disclosure in Financial Statements" defines and improves comprehensive presentation and stipulated disclosure requirements in line with international best practices and replaces Financial Accounting Standard No. 1. The standard is applicable to all Islamic financial institutions and other institutions that follow international standards. Financial Accounting issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). FAS 1 - Revised 2021 is in line with the amendments to the AAOIFI Financial Reporting Conceptual Framework (Revised 2020) (Conceptual Framework). Revised Financial Accounting Standard 1 – 2021 will help prepare clear, transparent and understandable financial statements, and in turn will help users of financial statements make better economic decisions.

This standard will be applied from 1 January 2023, with early application permitted.

Financial Accounting Standard No. 37 "Financial Reporting for Endowment Establishments"

This standard sets out the comprehensive accounting and financial reporting requirements for endowment institutions and similar institutions, including general presentation and disclosure requirements, and special presentation requirements such as yield requirements and basic accounting treatments related to some aspects of endowment institutions. The principles contained in this standard are consistent with the principles and provisions of Sharia, and this helps to reach a better understanding of the information contained in the general-purpose financial statements and enhances the confidence of stakeholders in endowment institutions.

This standard will be effective from 1 January 2022, with early application permitted. The newly established endowment institution must apply this standard since its establishment.

Financial Accounting Standard No. 38 "(Promise), (Option), (Hedging)"

This standard describes the accounting and reporting principles and requirements for (Wa'ad), (Khiar) and (Tahawot) arrangements for Islamic financial institutions.

Many products such as Murabaha and Ijara offered by institutions incorporate the implementation of a Wa'ad or Khiar in one way or another. An additional Wa'ad or Khiar, in line with this Standard, is a Wa'ad or Khiar associated with a Shariah-compliant arrangement with respect to its structure that does not give rise to any asset or liability unless it turns into an impaired contract or liability.

On the other hand, a Wa'ad product or Khiar is a stand-alone arrangement that is Shariah compliant and is used either as a regular product or, sometimes, for the purpose of hedging. It may take the form of a single transaction, series or group of transactions and may transform into a future transaction or series of transactions, in line with the principles and rules of Islamic Sharia. Such transactions give rise to an asset or liability for the parties, subject to the terms specified in this Standard.

This standard will be effective from 1 January 2022, with early application permitted.

Financial Accounting Standard No. 39 "Financial Reporting on Zakat"

This standard improves and replaces the previously issued Financial Accounting Standard 9 "Zakat". This standard aims to specify the accounting treatment of Zakat in the records of Islamic financial institutions, including presentation and disclosure in their financial statements.

The standard describes the applicable financial reporting principles based on the obligation of Islamic financial institutions to pay zakat. Additionally, if an Islamic financial institution is not required by law or its founding charter to pay zakat, it must still determine and disclose the amount of zakat due for the benefit of the various stakeholders.

This standard will be applied as of 1 January 2023, with early application permitted.

Financial Accounting Standard No. 40 "Financial Reporting for Islamic Finance Windows"

This standard enhances and replaces Financial Accounting Standard 18 "Islamic financial services provided by conventional financial institutions" and specifies financial reporting requirements applicable to conventional financial institutions that provide Islamic financial services.

This standard requires traditional financial institutions that provide Islamic financial services through Islamic financing windows to prepare and submit financial statements for Islamic financing windows aligned with the requirements of this standard and other financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This standard provides principles of financial reporting including presentation and disclosure requirements applicable to Islamic finance windows.

This standard will be applied as of 1 January 2024, on the financial statements of Islamic financing windows for conventional financial institutions, allowing early application, taking into account the simultaneous application of Financial Accounting Standard No. 1 "Public Presentation and Disclosure in Financial Statements".

2.3 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 a specific economic environment that are exposed to risks and returns different from those of other segments working in other economic environments.

Significant accounting policies

Revenues and expenses recognition

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 profit rate, 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, profit income continues to be recognized using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

Financial assets and liabilities

Fees and commission income
Fees income can be divided into the following two categories:

1. Fees income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and private wealth and asset management fees, custody and other management fees.

2. Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include:

Loan origination fees, loan commitment fees for Islamic financing that are likely to be drawn down and other credit related fees.

Financial Instruments – Initial Recognition

Date of recognition
Financial assets and liabilities, with the exception of Islamic financing 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. Islamic financing is recognized when funds are transferred to the suppliers' 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
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (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, Islamic financing 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 profit (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 groups 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 “worst case” or “stress test” scenarios.

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

The Solely Payments of Principal and Interest test (SPPI)

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

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

The most significant elements of profit 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 profit 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 profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Derivatives recorded at FVTPL

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

The Bank enters into derivative transactions with various counterparties. These include profit 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.

Debt instruments at fair value through other comprehensive income FVTOCI

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 Equity not held for trading. Such classification is determined on an instrument-by-instrument basis. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

FVOCI instruments are initially measured at fair value considering acquisition costs, FVOCI instruments are subsequently measured at fair value with gains or losses arising due to changes in fair value recognized at OCI in the fair value reserve. When the Bank decided to dispose such instruments, gains or losses recorded previously in the fair value reserve are reclassified directly to retained earning not through profit or loss.

Dividends are recognized in profit or loss 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 the income statement.

The Bank applies the new category of debt instruments at FVTOCI when both of the following conditions are met:

1- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
2- The contractual terms of the financial asset meet the SPPI testing.

Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss 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 income statement. Profit earned or incurred on instruments designated at FVTPL is accrued in profit income or profit expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Profit earnt on assets mandatorily required to be measured at FVTPL is recorded using contractual profit rate. Dividend income from equity instruments measured at FVTPL is recorded in the income statement as other operating income when the right to the payment has been established.

International Financial Reporting Standard No. (9) Financial Instruments

Pursuant to the instructions of the Palestine Monetary Authority No. (2/2018) regarding the application of International Financial Reporting Standard No. (9), the Bank applied

International Financial Reporting Standard No. (9) for the year 2014 on the date of the mandatory application of the standard on January 1, 2018, where the Bank evaluated the requirements Expected credit loss model, amendments related to classification and measurement adjustments for financial instruments. Noting that the Bank implemented the first stage (classification and measurement) of International Financial Reporting Standard No. (9) issued in 2009 on January 1, 2012.

The standard has been applied retrospectively and in line with International Financial Reporting Standard No. (9) (Financial Instruments), without amending the comparative figures. The impact of applying the standard on January 1, 2018 was recognized by reversing the effect on retained earnings in the statement of equity, with respect to the bank's own funds only.

The bank has applied the requirements of Financial Accounting Standard No. (30) “Impairment of assets, credit losses and high-risk obligations” on the mandatory application date of January 1, 2021. This standard shows the accounting treatment related to impairment and expected credit losses for financing, investments and obligations with high risks in Islamic financial institutions. The requirements of this standard regarding expected credit losses are very similar to the requirements of International Financial Reporting Standard No. (9).

The Bank's management has prepared a study to determine that the application of Financial Accounting Standard No. (30) compared with International Financial Reporting Standard No. (9), and it has not been found that there are material effects.

Impairment of financial assets

Overview of the ECL principles

The application of Islamic Financial Accounting Standard No. (30) and International Financial Reporting Standard No. (9) "Financial Instruments" has fundamentally changed the method of calculating the impairment loss for the Bank's finances through the approach of the expected credit loss method with a forward-looking view instead of recognizing the loss when the loss is incurred according to International Accounting Standard No. (39) “Financial Instruments: Recognition and Measurement”.

The Bank records provisions for expected credit losses for all financing and debt financial assets that are not held at fair value through the income statement, in addition to facility commitments and financial guarantee contracts, collectively referred to as “financial instruments”.

Equity instruments are not subject to impairment testing under Islamic Financial Accounting Standard No. (30) and International Financial Reporting Standard No. (9).

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL).

The 12mECL is 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.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has 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 Islamic financing into stage 1, 2 and 3, as described below:

Stage (1)	Financial instruments whose credit risk has not significantly increased since their initial recognition and which has not been impaired since being granted, the Bank has recorded a provision for impairment of ECL over a period of 12 months.
Stage (2)	Financial instruments whose credit risk has significantly increased since their initial recognition and which has not been impaired since being granted, the Bank recorded a provision for impairment of ECL over the life of the financial instruments.
Stage (3)	Financial instruments that considered credit-impaired. The Bank records a provision for impairment of ECL over the life of the financial instruments.

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

The calculation of ECLs

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

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

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

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

The mechanics of the ECL method are summarized below:

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

Forward looking information

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

- GDP growth
- Unemployment rates

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets.

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

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

Repossessed collaterals

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value of the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to 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 balance sheet.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are recorded in other revenues.

Forborne and modified Islamic financing

The Bank sometimes makes concessions or modifications to the original terms of Islamic financing as a response to the customer financial difficulties, rather than taking possession or to the otherwise enforce collection of collateral. The Bank considers a forborne when such concessions or modifications are provided as a result of the customer present or expected financial difficulties. Conditions may include extension of payments or agreement on new financing terms. It is the Bank's policy to monitor forborne Islamic financing to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between stage (2) and stage (3) are determined on a case-by-case basis.

Islamic financing

Islamic financing is carried at cost net of allowance for impairment losses and profit in suspense.

Profit and commission on non-performing Islamic financing are suspended according to PMA instructions.

Islamic financing and related impairment provision are written off when collection procedures become ineffective, according to PMA regulations. The excess in the provision for impairment losses, if any, is transferred to the income statement. Collections of previously written off facilities are recognized as revenues.

In accordance with PMA regulations, Islamic financing that are in default for more than 6 years together with related profit in suspense and impairment provisions are excluded from the financial statements.

The continuous evaluation of a significant increase in the credit risk of renewed Islamic financing is like the evaluation applied to other financing. The profit rate used to discount the expected credit losses for the credit cards is the effective return rate.

Return on unrestricted investment accounts

Returns are distributed to unrestricted investment accounts according to the Bank's policy, after deducting the Bank's share as a Mudarib according to predetermined rates.

Profits from jointly financed Islamic financing and investments are distributed from unrestricted investment accounts and the Bank's own sources according to the average monthly balances of such investments. The distribution for all currencies is as follows:

	Deposits' share in profits %		Bank's share %		Unrestricted investment accounts' share %	
	2021	2020	2021	2020	2021	2020
Saving and cash margins sharing profits	40	40	70	70	30	30
Deposits maturing within 1 month	40	40	70	70	30	30
Deposits maturing within 3 months	40	40	70	70	30	30
Deposits maturing within 6 months	65	65	65	65	35	35
Deposits maturing within 1 year	75	75	35	35	65	65
Annual Islamic deposit certificates	75	75	35	35	65	65

The Bank bears all administrative costs. In addition, the executive management of the Bank adjusts the profit percentage distributed to unrestricted investment accounts according to the Bank's results as well as prevailing market rates.

Finance Contracts

Finance contracts are recorded at cost after deducting suspended profits and the provision for doubtful Islamic financing (net amount).

A provision for doubtful Islamic financing is made when it is not possible to collect the amounts owed to the Bank, when there is objective evidence that an event had an adverse impact on the future cash flows of finance contracts and when the impairment can be reasonably estimated. The impairment is recorded in the statement of comprehensive income.

According to PMA instructions, profits on non-performing finance contracts are suspended.

Finance contracts are written off when measures taken to collect these amounts are deemed impractical. Any excess in the provision is transferred to the income statement. Collected amounts already written off are recorded as revenues.

Murabaha

Murabaha is a sale contract between the Bank and the customer where the Bank sells the customer a product at a price above its cost after the difference is determined (Murabaha profit). The Bank applies a binding promise in accordance with standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Ijara contracts

Ijara is the benefit of ownership against compensation and is divided into two types:

Operating ijara: are lease contracts that do not end with the lessee owning the leased asset.

Ijara muntahia bittamleek: are lease contracts that end with the lessee owning the leased asset and take several forms in accordance with the Financial Accounting and Auditing Standards for Islamic Financial Institutions.

Ijara assets net of provision for doubtful Islamic financing and suspended profits are recorded at cost including direct cost to make ready for intended use. Income is distributed in proportion to the financial periods covered by the lease contract. Maintenance expenses are recorded in the financial period in which they occur.

Istisna’a financing

Istisna'a is a contract of sale between the Bank as maker or contractor and the owner of the contract (the buyer), where the Bank undertakes to build or manufacture the subject of the contract, upon request of the owner of the contract and according to buyer’s specifications, for the right price and in a manner agreed upon payment, whether paid in advance or by installments or deferring payment to a specific date in the future. Istisna'a is recoded at fair value after deducting the suspended profits and provision for doubtful Islamic financing.

Musharaka

Musharaka is when the Bank and the customer contribute capital in equal or different amounts for the purpose of constructing a new project or participating in an existing one. Each of the Bank and the owner become owners of shares in a fixed or declining manner earning the right to a share in profits. Loss is divided according to each partner’s share of capital. Musharaka is recorded at fair value of the consideration paid net of suspended profits and provision for doubtful Islamic financing.

Mudaraba

Mudaraba is a partnership in which the Bank contributes capital whereas the other party (mudarib) invests it in a project or certain activity in exchange for a specified share in profits under the condition that the mudarib bears the loss in the case of neglect or violation of the terms of Mudaraba. Gains and losses are recorded on the accrual basis if they can be reliably measured. Otherwise, gain is recorded when the mudarib distributes it while losses are recognized in the income statement when announced by the mudarib. Mudaraba is recorded at fair value net suspended profits and provision for doubtful Islamic financing.

Musawama

Musawama is a contract to sell a commodity to the Bank’s customer (the buyer) at a specified increase over cost after specifying this increase (Murabaha profit) where the Bank’s capital does not appear to the buyer. The Bank applies the principal of binding promises in Musawama contracts in accordance with the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Tawaroq

Tawarooq is the purchase of a commodity at a deferred bargaining or murabaha price and then selling it to a non-seller to obtain cash at a fair price, and this product (which has been approved by PMA and its Shari'a Supervisory Board temporarily for a specific period related to the Corona pandemic) allows the Bank's customers to obtain cash to cover their needs and obligations in accordance with the provisions and controls of Sharia standards.

Bad debts without a provision

Islamic financing related to died owners with insufficient guarantees are written off.

Financial assets investments

Financial assets investments are initially measured at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition all financial assets are stated at fair value or amortized cost as follows:

Financial assets at fair value

They are equity instruments and financial derivatives that are recognized at FVTPL. The entity can irrevocably elect to designate equity instruments not held for trading through other comprehensive income items.

If the Bank elects to designate equity instruments at fair value through other comprehensive income (FVOCI), the Bank recognizes change in fair value in a special account in equity. Where the asset is disposed of, the gain or loss is reclassified to the income statement.

Dividends on these investments in equity instruments are recognized in the income statement when the Bank's right to receive the dividends is established.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained profit in the asset and an associated liability for the amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset.

Fair value measurement

The Bank measures most of its financial instruments and discloses some of its non-financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

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 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 associate's results is recorded in the income statement. Unrealized gains and losses resulting from transactions between the Bank and its associate are eliminated to the extent of its profit 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 their carrying value, then recognizes the difference in the income statement.

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, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment properties are stated at fair value and changes in fair value are recognized in the statement of comprehensive income. In case of decline in the carrying value of these properties a provision should be taken and recognized in the income statement in the period where the decline occurs.

Property, plant and equipment

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

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

	Useful life (Years)
Real estate	33
Furniture, equipment, and leasehold improvements	6-16
Motor vehicles	6
Computers	5

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

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

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.

Projects in progress

Projects in progress represent all the cost related to preparing branches and offices, development costs of the new banking system and other projects not completed as of the date of the financial statements. Upon completion of each project it's transferred to the Property, plant and equipment or intangible assets.

A decrease in the carrying amount of projects in progress is carried out when there is evidence that the carrying amount of such projects cannot be recovered. If such indicators exist, the carrying amount of the projects is reduced to the expected recoverable amount.

Intangible assets

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization expense on intangible assets with finite lives is recognized in the income statement. Intangible assets with indefinite useful lives are tested for impairment annually and the impairment expenses are recognized in the income statement.

Intangible assets resulting from the Bank's operations are not capitalized and should be recognized in the income statement during the period in which the expenditure incurred.

Intangible assets are reviewed for impairment at each reporting date. Also, the economic useful lives for definite life intangible assets are reassessed and any adjustments are made in the subsequent periods.

Intangible assets comprise computer software. Bank’s management estimates the useful lives of the intangibles. Intangibles are amortized using the straight-line method based on the expected useful life of 5 years.

Earnings prohibited by Sharia’

The Bank records earnings prohibited by Sharia’ in a special account that is shown in the statement of financial position within other liabilities. This amount is disbursed on charitable activities as determined by the Bank’s Sharia’ Supervisory Board.

Zakat

According to the Bank's articles of association, the Bank's shareholders are responsible to pay their zakat.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable 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.

Impairment in the value of financial assets

An assessment is made at the date of the financial statements to determine whether there is an objective evidence for specific financial assets impairment. If such evidence exists, any impairment loss is recognized in the income statement.

Equity instruments classified as financial assets at fair value through statement of comprehensive income – the objective evidence includes a significant or prolonged decline in value. The materiality of the decrease is measured by reference to the original cost of the investment, and the length of the decline is measured by reference to the period during which the fair value has been below its original value. The decrease represents the difference between the original cost and the fair value, after downloading any previously recognized impairment loss in the income statement.

Debt instruments classified as financial assets at amortized cost - the decrease represents the difference between the amortized cost and the fair value, net of any previously recognized impairment loss in the income statement.

Provisions

Provisions are recognized when the Bank has a present 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 provisions

The Bank deducts tax provisions in accordance with International Accounting Standard No. (12) and the tax rates determined in accordance with the laws, regulations and instructions in force in Palestine.

IAS (12) recognizes temporary differences in time as at the balance sheet date, as deferred taxes. As a result, the Bank may have deferred tax assets or liabilities.

Deferred taxes are taxes expected to be paid or recovered as a result of temporary differences in time between the value of assets or liabilities in the financial statements and the amount on which the taxable profit is calculated. Deferred taxes are accounted for using the liability method of the statement of financial position. Deferred taxes are accounted for in accordance with the tax rates expected to be applied when the tax liability is settled, or the deferred tax asset is realized.

Taxable profits are calculated on the basis of taxable profits. The taxable profits differ from the profits declared in the financial statements because the declared profits include non-taxable income or non-deductible expenses in the financial period but in subsequent years or cumulative taxable losses or items not subject to Acceptable for tax purposes.

Deferred tax assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable 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.

Provision for employees' indemnity

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine and the Bank's human resources policies. The current law obliges the employer to settle the end of service benefits for the periods preceding the application of the provisions of the Law.

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 profit 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 profit 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.

Significant judgement in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, 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. The Bank has the option, under some of its leases to lease the assets for additional terms. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases are considered to have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Capital cost

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 statement of income.

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Bank (after deducting income and any related expenses on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Cash and cash equivalents

Cash and cash equivalents represent cash and balances maturing within three months. It includes cash on hand and cash balances at PMA, cash at financial institutions, and investments at Islamic banks maturing within three months after subtracting the statutory reserve, restricted balances at PMA, banks and financial institutions' deposits that mature within three months and restricted balances.

Foreign currencies

Foreign currency transactions during the year are recorded using exchange rates that were in effect at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the financial statements date as issued by PMA.

Non-monetary items measured at fair value denominated in foreign currencies are translated using the exchange rates prevailing at the date of determining their fair value.

Any foreign currency exchange gains or losses are recognized in the income statement.

Use of estimates

The preparation of financial statements requires to use estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosures in the financial statements. Because of the use of these estimates and assumptions, actual results may differ from estimates and may require an adjustment to the carrying amount of assets or liabilities in the future.

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

Fair value of Investment properties

Investment properties are appraised by using real estate appraisers registered at Palestine Capital Market Authority.

Provision for legal cases

Provision for legal cases is established to provide for legal obligations, if any, based on the opinion of the Bank's lawyer.

Provisions for employees' indemnity

The Bank's management uses certain estimates to determine the amount of employees' indemnity. The Bank's management believes that these estimates and assumptions are reasonable.

The useful lives of tangible and intangible assets

The Bank's management reassess the useful lives of tangible and intangible assets and adjusts them, if necessary, at the end of each financial year.

Income tax Provision

The Bank's management uses certain estimates to determine the amount of the income tax provision. The Bank's management believes that these estimates and assumptions are reasonable.

Fair value of financial instruments

The determination of the ECL provision expected from the Banks's management requires significant judgment and assumption to estimate the amounts and timing of future cash flows, as well as any significant increase in the credit risk of financial assets after its initial recognition and taking into account future measurement information for ECL.

The Bank's computes the provision for impairment of financial assets according to the International Financial Reporting Standards (IFRSs) and PMA instructions.

Provision for expected credit losses

Financial assets are assessed for impairment on the basis described in the "Impairment of financial assets" section.

The determination of expected credit losses (ECL) provision require the management of the Bank to make judgments and assumption to estimate the amounts and timing of future cash flows, as well as an estimate of any significant increase in the credit risk of financial assets after initial recognition, and taking into account future measurement information for expected credit losses.

The Bank's policy of identifying the common elements (s) on which credit risk and ECL are measured on an individual basis are based on the following:

– Retail Portfolio: individual basis at facility level/customer

– Corporate Portfolio: individual basis at facility level/customer

– Banks Portfolio: individual basis at facility level /bank

– Debt instruments measured at amortized cost (sukuk): individual basis at debt instrument level

Inputs, assumptions and techniques used for ECL calculation – Islamic Financial Reporting Standards (30) and IFRS 9 methodology

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

- Assessment of significant increase in credit risk (SICR)

To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes.

The assessment of significant increases in credit risk will be performed quarterly for each individual exposure based on the below factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage (1) to Stage (2):

3- Management has established thresholds for significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition.

4- FAS (30) and IFRS 9 (Financial Instruments) includes a presumption of a significant increase in credit risk for financial instruments that have defaulted and matured for more than 30 days. In this regard, the Bank has approved a 30-day period.

5- All performing facilities with DPD greater than or equal to 30 DPD on previous quarter

6- Any client identified by the senior management / Board as having significant increase in credit risk and enhanced monitoring is required.

7- All facilities that have been restructured in the past due to credit risk related factors or which were NPL in the past 12 months to be considered Stage 2.

8- All facilities working in high credit risk industries (identified at assessment date if any)

9- All facilities identified by regulatory authorities or government to have an SICR.

10-All customer exposures breaching debt covenants.

11-All corporate customers that have decrease in Expected Cash flow and liquidity issues, assessing feasibility studies for new projects, increase in debt ratios etc.

12-Two or more notches decrease in the financial assets rating.

13-The Bank rebuts the 30 days past due rule if the Bank has reasonable and supportable information that is available without undue cost or effort and demonstrates that the credit risk has not increased significantly since initial recognition.

14-Government employees in Gaza.

Movements between Stage (2) and Stage (3) are based on whether financial assets are credit -impaired as at the reporting date. The determination of credit-impairment under FAS (30) and IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS (39), as mentioned in the “Definition of default” below.

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

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

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

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage (1) and Stage (2) will be a discounted probability- weighted estimate that considers the future macroeconomic scenarios for future years.

The base case scenario will be based on macroeconomic forecasts (e.g. GDP, unemployment, etc.). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

- Definition of default:

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

- Expected Life:

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving Islamic financing that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

FAS 30 implementation Governance

To ensure proper governance of the FAS 30 implementation, a steering committee was formed consisting of the Risk Manager, Credit Manager , Financial Manager, and IT Manager with the responsibilities to provide decisions/ feedback on the work plan regarding implementation and adoption of FAS 30 to ensure all relevant policies and procedures are updated in line with the new requirements and systems are modified / updated for the new requirements, in addition to present the ECL results to the Bank Management and related Committees of the Board of Directors.

3. Cash and balances with Palestine Monetary Authority

This item represents the following:

	2021	2020
	U.S. $	U.S. $
Cash on hand	220,856,670	139,963,837
Balances at PMA:		
Current and on demand accounts	94,694,936	100,184,711
Deposits maturing within three months	9,449,929	5,641,749
Statutory cash reserve	116,391,049	94,399,588
Restricted balances	147,000	147,000
	441,539,584	340,336,885
Provision for expected credit losses	(342,545)	-
	441,197,039	340,336,885

- According to PMA circular number (67/2010), the Bank shall maintain statutory cash reserves with PMA at 9% of total customers' deposits. The statutory reserve is calculated at the end of each month.
- PMA does not pay profit on these statutory reserves and current and on demand accounts.
- Restricted balances as at December 31, 2021 and 2020 amounted to U.S. $ 147,000, respectively.

A summary of the movement on the gross carrying amount of the 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 as of January 1, 2021	200,373,048	-	-	200,373,048
Net change during the year	20,309,866	-	-	20,309,866
Balance as of December 31, 2021	220,682,914	-	-	220,682,914

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2021	159,931,697	-	-	159,931,697
Net change during the year	40,441,351	-	-	40,441,351
Balance as of December 31, 2021	200,373,048	-	-	200,373,048

The movement of provision for Expected credit loss 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 as of January 1, 2021	-	-	-	-
Net re-measurement of expected credit losses during the year	342,545	-	-	342,545
Balance as of December 31, 2021	342,545	-	-	342,545

4. Balances at banks and financial institutions

This item comprises the following:

	2021	2020
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and on demand accounts	12,370,754	5,695,286
Deposits maturing within three months	140,212,036	141,327,838
Deposits maturing within more than three months	3,754,000	-
Cash margin	50,000	559,503
	156,386,790	147,582,627
Foreign banks and financial institutions:		
Current and on demand accounts	16,866,828	8,949,689
Deposits maturing within three months	11,283,497	23,505,051
Deposits maturing within more than three months	21,515,832	-
Cash margin	1,470,164	2,743
	207,523,111	180,040,110
Provision for expected credit losses	(1,732,983)	(1,775,177)
	205,790,128	178,264,933

- Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 174,723,782 and U.S. $ 156,535,059 as at December 31, 2021 and 2020, respectively.

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

	2021			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2021	178,350,207	-	1,689,903	180,040,110
Net change during the year	27,483,001	-	-	27,483,001
Balance as of December 31, 2021	205,833,208	-	1,689,903	207,523,111

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	167,251,406	-	1,689,903	168,941,309
Net change during the year	11,098,801	-	-	11,098,801
Balance as of December 31, 2021	178,350,207	-	1,689,903	180,040,110

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

	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2021	85,274	-	1,689,903	1,775,177
Net re-measurement of expected credit losses during the year	(42,194)	-	-	(42,194)
Balance as of December 31, 2021	43,080	-	1,689,903	1,732,983

	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	45,607	-	1,689,903	1,735,510
Net re-measurement of expected credit losses during the year	39,667	-	-	39,667
Balance as of December 31, 2020	85,274	-	1,689,903	1,775,177

5. Direct Islamic financing

This item represents the following:

	2021	2020
	U.S. $	U.S. $
Murabaha receivables	792,997,250	750,890,313
Tawaroq	36,343,292	43,068,370
Istisna'a financing	33,949,932	34,013,665
Islamic credit cards	19,264,338	20,628,618
Musawama financing	19,230,755	23,853,907
Ijara muntahia bittamleek	9,124,367	8,089,099
Current overdraft accounts	3,989,400	6,699,334
Qard Hasan	4,337,159	14,066,352
Mudarabah financing	-	8,000,000
	919,236,493	909,309,658
Suspended profits	(1,443,863)	(1,916,846)
Provision for expected credit losses	(27,429,190)	(21,916,325)
	890,363,440	885,476,487

- Islamic financing net of unearned profits amounted to U.S. $ 102,163,770 and U.S. $ 91,188,612 as at December 31, 2021 and 2020, respectively.
- Downgraded direct Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 109,310,162 and representing (11.91%) of the direct Islamic financing net of the suspended profits and U.S. $ 56,784,743 representing (6.26%) of direct Islamic financing net of the suspended profits granted at the end of the previous year.
- Defaulted direct Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 46,593,305 representing (5.08%) of the direct Islamic financing net of the suspended profits and U.S. $ 33,180,542 representing (3.66%) of the direct Islamic financing net of the suspended profits granted at the end of the previous year.
- Direct Islamic financing granted to Palestine National Authority and by its guarantee amounted to U.S. $ 138,841,342 representing (15.1%) of gross Islamic financing and U.S. $ 132,458,148 representing (14.57%) of gross Islamic financing granted at the end of the previous year.
- Fair value of customers' collaterals against Islamic financing according to PMA regulations amounted to U.S. $ 343,836,554 and U.S. $ 369,952,999 as at December 31, 2021 and 2020, respectively.

- According to PMA circular number (1/2008), defaulted direct Islamic financing for more than 6 years were excluded from the Bank's financial statements. These defaulted direct Islamic financing amounted to U.S. $ 2,632,680 and U.S. $ 2,435,301 as at December 31, 2021 and December 31, 2020, respectively.
- The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 18,339,441 and U.S. $ 13,653,053 as at December 31, 2021 and December 31, 2020, respectively.

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

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2021	748,776,549	125,619,276	34,913,833	909,309,658
Transferred to stage (1)	39,934,196	(35,809,065)	(4,125,131)	-
Transferred to stage (2)	(52,217,373)	53,494,064	(1,276,691)	-
Transferred to stage (3)	(13,940,149)	(15,100,453)	29,040,602	-
Net change during the year	31,541,157	(11,098,877)	(10,123,855)	10,318,425
Written off	-	-	(391,590)	(391,590)
Balance of December 31, 2021	754,094,380	117,104,945	48,037,168	919,236,493

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2021	586,065,743	169,178,559	35,970,874	791,215,176
Transferred to stage (1)	55,169,562	(53,771,167)	(1,398,395)	-
Transferred to stage (2)	(41,496,852)	48,499,115	(7,002,263)	-
Transferred to stage (3)	(6,861,904)	(7,786,756)	14,648,660	-
Net change during the year	155,900,000	(30,500,475)	(6,961,900)	118,437,625
Written off	-	-	(343,143)	(343,143)
Balance as of December 31, 2021	748,776,549	125,619,276	34,913,833	909,309,658

The movement of provision for expected credit losses on balances of direct Islamic financing is as follows:

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2021	4,613,008	5,383,556	11,919,761	21,916,325
Transferred to stage (1)	2,970,397	(1,010,061)	(1,960,336)	-
Transferred to stage (2)	(413,134)	731,083	(317,949)	-
Transferred to stage (3)	(111,818)	(395,239)	507,057	-
Net re-measurement of expected credit losses during the year	(1,442,333)	208,153	7,112,346	5,878,166
Excluding provision for defaulted Islamic financing for more than 6 years	-	-	(365,301)	(365,301)
Balance as of December 31, 2021	5,616,120	4,917,492	16,895,578	27,429,190

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	3,168,840	4,544,767	8,939,652	16,653,259
Transferred to stage (1)	850,931	(724,941)	(125,990)	-
Transferred to stage (2)	(176,719)	1,594,953	(1,418,234)	-
Transferred to stage (3)	(3,705)	(103,521)	107,226	-
Net re-measurement of expected credit losses during the year	773,661	72,298	4,725,411	5,571,370
Excluding provision for defaulted Islamic financing for more than 6 years	-	-	(308,304)	(308,304)
Balance as of December 31, 2020	4,613,008	5,383,556	11,919,761	21,916,325

The movement on the provision for doubtful Islamic financing default for more than 6 years is as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	2,435,301	2,355,841
Additions	365,301	308,304
Written off	(167,922)	(228,844)
Balance, end of the year	2,632,680	2,435,301

The movement on the suspended profits is as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	1,916,846	4,076,407
Suspended profits during the year	690,281	486,258
Suspended profits recovered	(1,136,975)	(1,026,858)
Transferred to unearned revenues	-	(1,584,122)
Excluding suspended profits for defaulted Islamic financing for more than 6 years	(26,289)	(34,839)
Balance, end of the year	1,443,863	1,916,846

The distribution of Islamic financing net of suspended profits by economic sector is as follows:

	2021	2020
	U.S. $	U.S. $
Public sector		
Palestine National Authority	138,841,342	132,458,148
Manufacturing and Agricultural		
Manufacturing	5,589,414	4,288,790
Agricultural	22,004,312	11,585,083
	27,593,726	15,873,873
Services sector	1,389,459	1,896,393
Trade		
Internal trade	216,345,405	227,055,862
External trade	22,145,379	19,012,632
	238,490,784	246,068,494
Real Estate and Construction		
Constructions	108,778,988	116,113,213
Permanent residence and houses improvement	32,995,810	29,446,032
	141,774,798	145,559,245
Lands	119,022,226	110,554,545
Consumers' Financing		
Cars financing	168,313,076	149,035,276
Consumable goods financing	31,841,912	61,738,042
	200,154,988	210,773,318
Others	50,525,307	44,208,796
	917,792,630	907,392,812

6. Financial assets at fair value through profit or loss

This item represents financial assets listed on the Palestine Exchange with an amount of U.S. $ 1,905,783 as at December 31, 2021 compared to U.S. $ 1,286,319 as at December 31, 2020, during the year, revaluation profits were recorded in the income statement and amounted to U.S. $ 619,464.

7. Financial assets at fair value through other comprehensive income

This item represents the following:

	2021	2020
	U.S. $	U.S. $
Quoted debt instruments- Sukuk	14,333,591	-
Quoted financial assets	5,161,495	3,483,780
Unquoted financial assets*	226,925	226,925
	19,722,011	3,710,705

Profits from debt instruments were recorded in the income statement amounted to U.S. $ 123,831 as at December 31, 2021.

* Unquoted financial assets are stated at cost due to the inability to determine their fair value. In the management's opinion, the fair value of unquoted shares is not materially different from their apparent value in the financial statements.

The movement on the cumulative change in fair value during the year is as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	(753,171)	(273,086)
Change in fair value of financial assets	1,678,836	(366,714)
The Bank's share of the associate's other comprehensive items	(49,749)	(113,371)
Balance, end of the year	875,916	(753,171)

8. Financial assets at amortized cost

	2021	2020
	U.S. $	U.S. $
Financial securities quoted at foreign financial markets	3,856,353	2,916,337
Unquoted foreign financial securities	15,514,809	11,283,498
	19,371,162	14,199,835
Provision for expected credit losses	(33,046)	(253,423)
	19,338,116	13,946,412

Profits from investments at amortized cost were recorded in the income statement amounted U.S. $ 434,870 and U.S. $ 838,600 for the year ended December 31, 2021 and 2020, respectively.

A 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 as at January 1, 2021	11,944,488	2,255,347	-	14,199,835
Additions	10,462,623	-	-	10,462,623
Premium	127,759	-	-	127,759
Matured	(3,136,955)	(2,255,347)	-	(5,392,302)
Amortized	(26,753)	-	-	(26,753)
Balance at December 31, 2021	19,371,162	-	-	19,371,162

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2020	14,104,372	5,749,925	-	19,854,297
Transferred to stage (1)	1,490,463	(1,490,463)	-	-
Matured	(3,646,232)	(2,004,115)	-	(5,650,347)
Amortized	(4,115)	-	-	(4,115)
Balance at December 31, 2020	11,944,488	2,255,347	-	14,199,835

The movement of provision for expected credit losses for financial assets at amortized cost as of December 31, 2021 and 2020 is as follows:

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2021	197,153	56,270	-	253,423
Net re-measurement of expected credit losses	(164,107)	(56,270)	-	(220,377)
Balance, as at December 31, 2021	33,046	-	-	33,046

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2020	194,639	1,116	-	195,755
Transferred to stage (1)	169	(169)	-	-
Net re-measurement of expected credit losses	2,345	55,323	-	57,668
Balance, as at December 31, 2021	197,153	56,270	-	253,423

9. Investment in associates

The following table shows the Bank's investment in associates as at December 31, 2021 and December 31, 2020:

	Country of Incorporation	Ownership %	2021 U.S. $	2020 U.S. $
Al-Takaful Palestinian Insurance Company *	Palestine	28 %	7,669,266	8,136,515
Palestine Ijara Company **	Palestine	33 %	3,908,926	3,533,206
			11,578,192	11,669,721

* Al-Takaful Palestinian Insurance Company (Al-Takaful) has been established at the end of 2006. It provides in all insurance and reinsurance services according to Islamic Sharia' rules. Al-Takaful operates through its headquarter in Ramallah and its branches in Palestine. As at December 31, 2021, Al-Takaful paid-in capital amounted to U.S. $ 10,000,000.

** Palestine Ijara Company (PIC), which mainly provides Islamic leases for small and medium institutions according to Islamic Sharia' rules, has been established in Ramallah. As at December 31, 2021, PIC's paid-in capital amounted to U.S. $ 12,000,000.

A summary of the movement on the value of the investment in associates is as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	11,669,721	11,635,582
Bank's share of the associate's results of operations	375,719	147,510
Bank's share of the associate's other comprehensive income	(49,749)	(113,371)
Cash dividends	(417,499)	-
Balance, end of the year	11,578,192	11,669,721

The following table summarizes the financial information related to the Bank's investment in its associates as at December 31, 2021 and December 31 , 2020 :

	Al-Takaful		PIC	
	2021	2020	2021	2020
The financial position of associates:	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	89,442,308	80,722,784	23,448,483	24,964,249
Total liabilities	66,999,922	59,837,636	11,721,699	14,364,626
Total equity	22,442,386	20,885,148	11,726,784	10,599,623
Book value before adjustments	6,245,716	5,812,337	3,908,926	3,533,206
Adjustments	1,423,550	2,324,178	-	-
Book value after adjustments	7,669,266	8,136,515	3,908,926	3,533,206
Revenues and results of operations:				
Net revenues	9,689,104	8,933,460	2,238,737	2,436,310
Operational, administrative and general expenses	(7,995,499)	(6,822,128)	(694,719)	(1,737,966)
Depreciation and amortization	(869,535)	(882,900)	(71,062)	(76,183)
Finance costs	(65,633)	(38,193)	(456,928)	(537,323)
Other revenues (expenses)	2,014,767	1,863,442	294,169	(97,265)
Income before tax	2,773,204	3,053,681	1,310,197	(12,427)
Tax expense	(745,992)	(835,155)	(183,036)	(200,215)
Net income for year after tax	2,027,212	2,218,526	1,127,161	(212,642)
Adjustments	(2,027,212)	(1,468,530)	-	29,001
Net income for year after tax-adjustments	-	749,996	1,127,161	(183,641)
Bank's share from the year's results of operations	-	208,724	375,719	(61,214)
Bank's share from other comprehensive income	(49,749)	(113,371)	-	-

10. Investment properties

Following is the movement on Investment properties:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	8,375,539	8,676,559
Additions*	7,853,664	-
Transferred from property, plant and equipment (note 11)	179,308	-
Investment properties sold	(1,603,133)	(181,635)
Loss on impairment of investments properties	(1,187,388)	(24,452)
Change in fair value during the year through other comprehensive income	-	(94,933)
Balance, end of the year	13,617,990	8,375,539

* These additions represent investment in properties against Mudaraba financing related to Reef project.

Following is the movement on investment properties reserve:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	187,345	256,946
Unrealized losses on revaluation	-	(94,933)
Deferred tax liabilities	-	25,332
Balance, end of year	187,345	187,345

11. Property, plant and equipment

December 31, 2021	Real estate U.S. $	Furniture, equipment and leasehold improvements U.S. $	Motor vehicles U.S. $	Computers U.S. $	Total U.S. $
Cost:					
Balance, beginning of the year	15,912,772	22,660,210	90,893	5,326,992	43,990,867
Additions	85,026	862,405	-	609,655	1,557,087
Transferred from projects in progress (note 12)	-	103,960	-	-	103,960
Disposals	-	(69,561)	-	(127,517)	(197,078)
Transferred to investments properties (note 10)	(179,308)	-	-	-	(179,308)
Balance, end of the year	15,818,490	23,557,014	90,893	5,809,130	45,275,528
Accumulated depreciation:					
Balance, beginning of the year	3,386,805	9,317,565	43,866	3,874,221	16,622,457
Depreciation for the year	438,820	1,865,288	13,634	499,266	2,817,008
Disposals	-	(43,056)	-	(119,536)	(162,592)
Balance, end of the year	3,825,625	11,139,797	57,500	4,253,951	19,276,873
Net book value as at December 31, 2021	11,992,865	12,417,217	33,393	1,555,180	25,998,655
Net book value as at December 31, 2020	12,525,967	13,342,645	47,027	1,452,771	27,368,410

12. Projects in progress

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	2,702,117	3,231,217
Additions during the year *	364,935	270,261
Transferred to property, plant and equipment (note 11)	(103,960)	(336,680)
Transferred to intangible assets (note 14)	(74,770)	(202,500)
Disposals	-	(260,181)
Balance, end of the year	2,888,322	2,702,117

* Additions to projects in progress represents payments made for implementing a new banking system, electronic archiving system and for the renovation of branches. The Bank system, archiving system and the branches are still under the preparation phase, the expected cost of completing the projects in progress as of December 31, 2021 is estimated to U.S. $ 3,841,210 and it is expected to be completed in 2022.

13. Right-of-use assets

Following is the movement on right-of-use assets:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	8,067,525	9,233,781
Additions during the year	168,011	278,548
Disposals during the year	(103,417)	-
Depreciation for the year	(1,194,103)	(1,444,804)
Balance, end of the year	6,938,016	8,067,525

14. Intangible assets

Intangible assets comprise computer software and programs. Following are the details of the movement on intangible assets:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	874,374	739,647
Additions	170,417	252,956
Transferred from projects in progress (note 12)	74,770	202,500
Amortization	(333,062)	(320,729)
Balance, end of the year	786,499	874,374

15. Other assets

This item represents the following:

	2021	2020
	U.S. $	U.S. $
Clearing checks	-	17,170,121
Cash margin against credit cards	1,799,403	1,555,770
Receivables, advances and temporary accounts*	5,307,916	2,815,964
Accrued revenues and commissions	1,113,464	1,179,708
Prepaid expenses	1,473,325	708,634
Stationery and printings	321,943	405,107
Others	753,263	266,084
	10,769,314	24,101,388

* This item consists of account receivables against financing customers with a value of U.S. $ 4,893,186 and U.S. $ 2,462,913 as at December 31, 2021 and 2020 with advanced payments amounting to $ 363,846 and $ 305,452 as at December 31, 2021 and 2020, Respectively.

16. Banks and financial institutions' deposits

	2021	2020
	U.S. $	U.S. $
Motivational deposits maturing within more than three months *	25,000,000	25,000,000
Deposits maturing within three months	154,335,044	165,545,199
Deposits maturing within more than three months	3,779,517	-
	183,114,561	190,545,199

* This item represents incentive deposits from PMA with the aim of mitigating the economic impacts of the Coronavirus crisis (COVID-19) on the Bank's activities and subsequent losses as a result of delaying customers' installments during the year 2020.

17. Customers' deposits

	2021	2020
	U.S. $	U.S. $
Current and on demand account	321,267,408	325,999,812

- Total deposits comprise customers' current and on demand account (note 17), cash margins (note 18) and unrestricted investment accounts (note 23), amounting to U.S. $ 1,290,482,717 and U.S. $ 1,164,958,120 as at December 31, 2021 and 2020, respectively.
- Governmental deposits amounted to U.S. $ 14,414,224 and U.S. $ 16,137,788 representing %1.12 and %1.39 of the total deposits as at December 31, 2021 and 2020, respectively.
- Quasi-governmental deposits amounted to U.S. $ 2,477,242 and U.S. $ 226,378 representing %0.19 and %0.02 of the total deposits as at December 31, 2021 and 2020, respectively.
- Dormant deposits amounted to U.S. $ 74,888,836 and U.S. $ 24,207,551 representing %5.80 and %2.08 of the total deposits as at December 31, 2021 and 2020, respectively.
- Non-profit bearing deposits amounted to U.S. $ 354,688,592 and U.S. $ 361,854,577 representing %27.48 and %31.06 of the total deposits as at December 31, 2021 and December 31, 2020, respectively.

18. Cash margins

This item represents cash margins against the following:

	2021	2020
	U.S. $	U.S. $
cash margins against direct Islamic financing *	43,236,181	49,511,448
cash margins against indirect Islamic financing	7,697,784	9,099,307
Others	17,211,205	12,774,780
	68,145,170	71,385,535

* Cash margins on direct Islamic financing include cash margins participating in profits amounting to U.S. $ 34,724,049 and U.S. $ 35,530,770 as at December 31, 2021 and December 31, 2020, respectively.

19. Sundry provisions

This item represents the following provisions:

	Balance, beginning of the year	Additions for the year	Payments during the year	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2021				
Employees' end of service provision	8,523,679	1,830,885	(482,376)	9,872,188
Provision for legal cases	693,901	117,080	(170,679)	640,302
	9,217,580	1,947,965	(653,055)	10,512,490
December 31, 2020				
Employees' end of service provision	9,584,530	2,736,249	(3,797,100)	8,523,679
Provision for legal cases	647,964	69,902	(23,965)	693,901
	10,232,494	2,806,151	(3,821,065)	9,217,580

20. Tax provisions

The movement on tax provisions during the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	2,043,961	1,609,930
Provision for the year	5,871,899	5,312,063
Payments	(3,771,821)	(4,878,032)
Balance, end of the year	4,144,039	2,043,961

Tax expense as disclosed in the Income Statement

	2021	2020
	U.S. $	U.S. $
Provison for the year	5,871,899	5,312,063
Deferred tax assets *	(380,997)	(457,579)
	5,490,902	4,854,484

* This item represents the balance of deferred tax assets calculated on ECL allowance related to direct facilities, investments in Islamic banks and financial assets at amortized cost in addition to other accounts.

Following is the reconciliation between accounting income and taxable income:

	2021	2020
	U.S. $	U.S. $
Bank's accounting profit before taxes	19,176,091	16,024,207
Profit subject to Value Added Tax (VAT)	19,943,627	18,838,275
VAT on income	(2,750,845)	(2,598,383)
Profit subject to income tax	11,617,078	9,076,357
Income tax	1,742,562	1,811,454
Total taxes (VAT and income tax)	4,493,407	4,409,836
Provision for the year	5,871,899	5,312,063
Effective tax rate	%30.62	%33.15

Subsequent to the financial statements date, the Bank has reached a final settlement with the tax departments for the results of its operations until the year ended 2020.

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

21. Lease liabilities

Following is the movement on lease liabilities:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	7,904,982	8,815,947
Additions	168,011	278,548
Disposals	(132,442)	-
Payments	(1,307,314)	(1,418,929)
Finance costs on lease liabilities	212,093	229,416
Balance, end of the year	6,845,330	7,904,982

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 3% discount rate.

	2021	2020
	U.S. $	U.S. $
Short-term liabilities	1,448,278	1,447,975
Long-term liabilities	5,397,052	6,457,007
	6,845,330	7,904,982

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the income statement in the personnel expenses (note 30) and other operating expenses (note 31) amounted to U.S. $ 298,302 and U.S. $ 82,488, respectively for the year ended December 31, 2021.

22. Other liabilities

	2021	2020
	U.S. $	U.S. $
Palestine Monetary Authority Fund–Estidama program	8,120,400	475,400
Bank's transfers and certified checks	4,209,598	4,345,143
Provision for employees' incentives	1,700,000	600,000
Clearing checks	1,569,466	-
Temporary accounts and intermediary accounts	1,427,180	1,138,233
Return on unrestricted investment accounts	1,204,703	1,103,792
Accrued cash dividends	1,048,546	1,186,393
Accrued expenses	599,420	1,811,314
Board of Directors' bonuses	495,000	307,175
Provision for employees Vacations	337,249	331,793
Palestinian Deposit Insurance Corporation insurance provision	320,056	278,929
Social responsibility provision	294,432	101,804
Deferred tax liabilities *	68,378	68,378
Provision for indirect Islamic financing ECL **	41,204	78,844
Earnings prohibited by Sharia'	3,802	12,393
Other credit balances	1,237,352	1,487,079
	22,676,786	13,326,670

* The balance of deferred tax liabilities represents the result of the valuation of the investment properties which is included under the investment properties reserve in statement of changes in equity. Following is the movement on deferred tax liabilities:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	68,378	93,710
Amortizations	-	(25,332)
Balance, end of the year	68,378	68,378

** Following is the movement on the indirect Islamic financing expected credit losses provision:

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1, 2021	76,575	2,269	-	78,844
Net re-measurement of expected credit losses provision	(38,945)	1,305	-	(37,640)
As at December 31, 2021	37,630	3,574	-	41,204

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1, 2020	74,724	-	-	74,724
Transferred to stage (1)	2,459	(2,459)	-	-
Transferred to stage (2)	(2,602)	2,602	-	-
Net re-measurement of expected credit losses provision	1,994	2,126	-	4,120
As at December 31, 2020	76,575	2,269	-	78,844

23. Unrestricted investment accounts

This item represents the following:

	2021	2020
	U.S. $	U.S. $
Saving deposits	641,350,747	548,342,041
Time deposits	259,719,392	219,230,732
	901,070,139	767,572,773

24. Reserves

Statutory reserve dividends

As required by the Companies' Law and Banking Law, 10% of the net profit is transferred to the statutory reserve. This transfer will continue until the total reserve balance equals the Bank's paid-in share capital. This reserve is not available for distribution to shareholders and cannot be utilized without PMA's prior approval.

General banking risk reserve

This 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 Islamic financing after deducting impairment allowance for Islamic financing and suspended profits and 0.5% of indirect Islamic financing. According to PMA's instruction number (53/2013), no general banking risks reserve is required against the direct Islamic financing granted to small and medium size entities if these entities meet the conditions in this instruction. During 2018, the Bank adopted IFRS (9), and recorded the impact of first time adoption using the general banking risk reserve according to PMA instructions number (2/2018).

The reserve is not to be utilized or reduced without PMA's prior approval.

Pro-cyclicality reserve

The periodic fluctuations reserve item represents the value of the deductions made in accordance with the instructions of the Palestinian Monetary Authority No. (6/2015) at a rate of 15% of net profits after taxes, as the Bank stopped deducting this percentage and adding it to the reserve item according to instructions No. (01/2018), which specified A rate of 0.57% of the risk-weighted assets as an anti-cyclical capital source. The instructions allowed banks to use the amounts formed in the cyclical fluctuation reserve item for the purposes of this source. According to instructions No. (13/2019), a percentage of 0.66% of the Risk-weighted assets as an anti-cyclical capital source for the year 2019. The Bank will be obligated to disclosure requirements of the anti-cyclical capital buffer starting from March 31, 2023.

The reserve is not to be used for any purpose without PMA's prior written approval.

25. Investment and financing revenues

	2021	2020
	U.S. $	U.S. $
Murabaha financing revenues	47,260,884	44,002,924
Tawaroq financing revenues	2,465,144	469,518
Istisna'a financing revenues	2,346,709	2,051,505
Musawama financing revenues	1,374,165	1,496,525
Return on investment in Islamic Bank	912,015	696,651
Ijara muntahia bittamleek revenues	583,649	272,044
	54,942,566	48,989,167

26. Return on unrestricted investment accounts

	2021	2020
	U.S. $	U.S. $
Time deposits	6,278,631	5,768,009
Saving deposits	1,265,273	1,046,732
Profits sharing cash margins	91,558	105,970
	7,635,462	6,920,711

27. Net Commissions

	2021	2020
	U.S. $	U.S. $
Commissions received		
Issuing cards	3,968,165	3,311,911
Accounts' management	3,651,453	3,109,657
Returned and post-dated checks	1,558,227	1,732,653
Indirect financing	1,003,546	904,283
Other banking services	688,309	734,176
Cash deposits	700,184	485,211
Transfers	250,704	187,622
	11,820,588	10,465,513
Commissions paid	(1,891,428)	(1,558,062)
	9,929,160	8,907,451

28. Cash dividends

This item represents cash dividends on financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as follows:

	2021	2020
	U.S. $	U.S. $
Financial assets at fair value through profit or loss	102,885	135,399
Financial assets at fair value through other comprehensive items	275,035	366,714
	377,920	502,113

29. Other revenues

This item represents revenues from the following:

	2021	2020
	U.S. $	U.S. $
Recovery of suspended profits	1,136,975	1,026,858
Safety deposit box rental income	107,812	94,639
Others	127,086	118,672
	1,371,873	1,240,169

30. Personnel expenses

This item represents the following:

	2021	2020
	U.S. $	U.S. $
Salaries and related benefits	14,161,496	12,783,528
Employees' end of service	1,830,885	2,736,249
VAT on salaries	1,940,034	1,890,315
Medical insurance	812,676	804,714
Bank's contribution to the provident fund *	947,734	600,227
Clothing allowances	190,160	211,793
Travel and accommodation	125,903	145,676
Car Rentals	296,702	72,488
Training expenses	75,172	30,293
Vacations Provision (recovery)	-	(417,787)
Others	121,742	110,301
	20,502,504	18,967,797

* The Bank contributes 10% of the basic salary of the employee and the employee contributes between 5% and 10% of its basic salary to the provident fund according to the years of service. The provident fund balance is shown in the customers' deposits.

31. Other operating expenses

	2021	2020
	U.S. $	U.S. $
Maintenance and cleaning	1,991,608	1,930,416
Fees, license and subscriptions	1,847,738	1,879,194
Telephone, fax and postage	1,835,312	1,265,514
Subscription fees for Palestine Insurance Deposit Corporation *	1,200,672	1,815,198
Operational event losses **	1,134,833	-
Advertisements and marketing	1,006,749	508,165
Utilities	639,202	593,786
Board of Directors' bonuses and expenses	592,206	320,175
Social responsibility ***	500,000	512,470
Professional and consultancy fees	466,199	663,171
Guarding	398,061	403,742
Losses of Reef project	370,456	-
Insurance	279,915	210,339
Stationery and printings	242,171	351,921
Archiving and sorting files	178,060	-
Disposal of property, plant and equipment	86,525	1,363
Hospitality	86,189	74,500
Rents	1,600	10,000
Sundry expenses	225,322	201,179
	13,082,818	10,741,133

* The Palestinian Deposit Insurance Corporation (the Corporation) was established in accordance with Law No. (7) of 2013. Banks must accrue an annual subscription fee of %0.3 starting in year 2014 from the total deposits specified by the abovementioned Law. On December 1, 2020, The Corporation issued a circular No. (3/2020) regarding reducing the minimum subscription fee to (0.2%-0.8%), where at 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, The Corporation 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 deposits instead of 0.2% of the average total deposits. On November 9, 2021 and starting from the beginning of the year 2022, the Corporation issued Circular No. (2/2021) regarding raising the fixed subscription fee to 0.2% of the average total deposits.

** Subsequent to the financial statements date, the Bank's management discovered fraudulent action committed by one of the Bank's related to customers' checks deposited for collection. Accordingly, the Bank's management conducted an investigation to evaluate the financial effect. The impact of this event amounted to U.S. $ 1,134,833 which was recorded in the operational event losses item in the income statement for the current year.

The Bank's management has taken the necessary legal actions to recover its due rights and recourse to all involved parties... The Bank's management and the legal advisor believe that this event will not result in any additional losses, except for what was recorded in the income statement.

*** The Bank provides donations in areas of social, religious and others as part of social responsibility policy to build bonds of trust between different social groups. The percentage of donations reached %3.65 and %4.59 of net income as at December 31, 2021 and 2020, respectively.

32. Provision for expected credit losses, net

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

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Palestinian Monetary Authority	342,545	-	-	342,545
Balances at Banks and financial institutions	(42,194)	-	-	(42,194)
Direct Islamic financing	(1,442,333)	208,153	7,112,346	5,878,166
Financial assets at amortized cost	(164,107)	(56,270)	-	(220,377)
Financial assets at fair value through other comprehensive income	586	-	-	586
Indirect Islamic financing	(38,945)	1,305	-	(37,640)
As at December 31, 2021	(1,344,448)	153,188	7,112,346	5,921,086

- The recovery during the year amounted to U.S. $ 2,372,614.

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Banks and financial institutions	39,667	-	-	39,667
Direct Islamic financing	773,661	72,298	4,725,411	5,571,370
Financial assets at amortized cost	2,345	55,323	-	57,668
Indirect Islamic financing	1,994	2,126	-	4,120
As at December 31,2020	817,667	129,747	4,725,411	5,672,825

- The recovery for the year amounted to U.S. $ 2,983,550.

33. Palestine Monetary Authority fines

This item represents fines imposed by PMA on the Bank due to noncompliance with some of PMA instructions.

34. Stocks dividends distribution

At its meeting held on March 23, 2021, the Bank's General Assembly approved the distribution of stock dividends at a rate of 6.25% of the share par value for a total amount of U.S. $ 5,000,000 for the Bank's 2020 business results.

At its meeting held on March 18, 2020, the Bank's General Assembly approved the distribution of stock dividends at a rate of 3.896% of the share par value for a total amount of U.S. $ 3,000,000 for the Bank's 2020 business results.

35. Zakat

Each shareholder bears the responsibility for Zakat payment. The Bank, with the consent of Shari'a Supervisory Board, annually informs the shareholders of the amount of Zakat due on each share. The Zakat per share for 2021 and 2020 amounted to U.S. $ %5.69 and U.S. $%5.57, respectively.

36. Commitments and contingencies

Total outstanding commitments and contingencies as at the financial statements date are as follows:

	2021	2020
	U.S. $	U.S. $
Unutilized limits of direct Islamic financing	25,492,145	36,268,760
Letters of guarantee	53,919,379	61,982,235
Letters of credits	4,604,799	1,142,962
	84,016,323	99,393,957

37. Cash and cash equivalents

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

	2021	2020
	U.S. $	U.S. $
Cash and balances with PMA	441,539,584	340,336,885
Balances at banks and financial institutions	207,523,111	180,040,110
Less: Cash margins	(1,520,164)	(562,246)
Less: Balances at banks maturing within more three months	(25,269,832)	-
Less: statutory cash reserve and restricted balances at PMA	(211,085,985)	(194,584,299)
Banks and financial institutions' deposits maturing within three months	(154,335,044)	(165,545,199)
Restricted balances at PMA	(147,000)	(147,000)
	256,704,670	159,538,251

38. Basic and diluted earnings per share

This item represents the following:

	2021	2020
	U.S. $	
Profit for the year	13,685,189	11,169,723
	Share	
Weighted average number of subscribed shares	85,000,000	85,000,000
	U.S. $	
Basic and diluted earnings per share from profit of the year	0.16	0.13

39. Sources of financing the Bank's assets and investments

The following are the details of the sources of financing for the assets and investments of the Bank:

	2021			2020		
	Joint financing	Self- financing	Total	Joint financing	Self- financing	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	441,197,039	-	441,197,039	340,336,885	-	340,336,885
Balances at banks and financial institutions	205,790,128	-	205,790,128	178,264,933	-	178,264,933
Direct Islamic financing	890,363,440	-	890,363,440	885,476,487	-	885,476,487
Financial assets at fair value through profit and loss	-	1,905,783	1,905,783	-	1,286,319	1,286,319
Financial assets at fair value through other comprehensive income	-	19,722,011	19,722,011	-	3,710,705	3,710,705
Financial assets at amortized cost	-	19,338,116	19,338,116	-	13,946,412	13,946,412
Investment in associates	-	11,578,192	11,578,192	-	11,669,721	11,669,721
Investment properties	-	13,617,990	13,617,990	-	8,375,539	8,375,539
Property, plant and equipment	-	25,998,655	25,998,655	-	27,368,410	27,368,410
Projects in progress	-	2,888,322	2,888,322	-	2,702,117	2,702,117
Right-of-use assets	-	6,938,016	6,938,016	-	8,067,525	8,067,525
Deferred tax assets	-	5,531,498	5,531,498	-	5,150,501	5,150,501
Intangible assets	-	786,499	786,499	-	874,374	874,374
Other assets	-	10,769,314	10,769,314	-	24,101,388	24,101,388
	1,537,350,607	119,074,396	1,656,425,003	1,404,078,305	107,253,011	1,511,331,316

40. Related party transactions

Related parties represent major shareholders and 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 Islamic financing are as follows:

	Nature of relationship	2021 U.S. $	2020 U.S. $
Statement of financial position items:			
Direct Islamic financing	Associate	585,148	1,143,225
	Executive Management	527,413	538,551
	Chairman and Board of Directors Members	4,411,530	9,359,706
	Others	6,234,425	4,933,260
Customers deposits	Associate	8,637,291	3,657,012
	Executive Management	873,366	711,809
	Chairman and Board of Directors Members	249,184	402,090
	Others	29,777,160	31,717,923
SWAPs, net	Major shareholder	143,768	1,610,957
Balances at banks and financial institutions	Major shareholder	8,688,238	2,934,137
Cash margins	Associate	13,064	11,281
	Others	37,754	35,819

		2021 U.S. $	2020 U.S. $
Income statement items:			
Financing income	Associate	55,360	58,029
	Executive Management	14,600	33,409
	Others	748,083	408,759
	Associate	124	225
	Chairman and Board of Directors Members	590	804
	Others	7,128	6,690

		2021 U.S. $	2020 U.S. $
Off statement of financial position items:			
Indirect Islamic financing	Associate	207,772	174,561
	Others	357,766	261,174

- Direct Islamic financing granted to related parties as at December 31, 2021 and 2020 represent %1.32 and %1.80 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2021 and 2020 represent %8.02 and %12.26 of the regulatory Bank's capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %1.35 to %13.

Board of Directors and key management remuneration (salaries, bonuses and other benefits) are as follows:

	2021	2020
	U.S. $	U.S. $
Board of Directors' members expenses	592,206	320,175
Executive management salaries and related benefits	732,826	811,575
Executive management end of service benefits	69,583	97,092

The Board of Director's bonuses for 2021 and 2020 are as follows:

	2021	2020
	U.S. $	U.S. $
National Islamic Investment Company represented by Mr. Maher Al-Masri	60,273	47,456
Rozan Specialized Medical Center for Infertility and IVF represented by Mr. Salem Abu khaizaran	37,323	28,333
National Islamic Investment Company represented by Mr. Omar Al-Masri	37,323	28,333
Birzeit Pharmaceutical Company represented by Mr. Talal Nassereldeen	37,323	28,333
Mr. Salah Al-Daghmeh Independent Member	37,323	28,333
Mr. Ali Zaidan Abu Zuhri- Independent Member	37,323	23,611
Mr. Abdulhameed Fayez Al-Obweh- Independent Member	37,323	28,333
Mr. Majid Al-Helu- Independent Member	37,323	28,333
Mr. Anees Al-Hajjeh- Independent Member	37,323	28,333
Institution of Management and Development of Orphans Money represented by Mr. Rafiq Shaker Al-Natsheh	24,882	23,611
National Islamic Investment Company represented by Mr.Alaa Saleem Mousa Sisalem	6,221	-
National Islamic Investment Company represented by Mr. Ahmad Haj Hassan	-	14,166
	389,960	307,175

Policy of remuneration and bonuses

According to PMA instructions number (10/2017), the Bank prepared policies governing rules of practice of remuneration and bonuses associated with the level of performance and risk. Members of the Board of Directors are committed to assume full responsibility for the promotion of effective corporate governance principles and best practices for the financial rewards and to ensure transparency and objectivity in the granting of bonuses. The Bank has adopted quantitative criteria which can be measured and ensures that all employees are motivated and appreciated. These incentives have been split to moral incentives that are intended for continuous communication with employees and to appreciate their efforts, and financial incentives based on results and achievements. The policy takes into account all kinds of risks that the Bank can be exposed to, the profit earned, percentage of bonuses to profits and compliance with the Bank's bylaws.

41. Concentration of assets and off statement of financial position items

Following is breakdown of the Bank's assets and off-balance sheet items by geographical area:

December 31, 2021	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	441,197,039	-	-	441,197,039
Balances at banks and financial institutions	156,386,790	28,593,810	20,809,528	205,790,128
Direct Islamic financing	890,363,440	-	-	890,363,440
Financial assets at fair value through profit or loss	1,905,783	-	-	1,905,783
Financial assets at fair value through other comprehensive items	5,388,420	-	14,333,591	19,722,011
Financial assets at amortized cost	-	15,483,468	3,854,648	19,338,116
Investment in associates	11,578,192	-	-	11,578,192
Investment properties	13,617,990	-	-	13,617,990
Property, plant and equipment	25,998,655	-	-	25,998,655
Projects in progress	2,888,322	-	-	2,888,322
Right-of-use assets	6,938,016	-	-	6,938,016
Deferred tax assets	5,531,498	-	-	5,531,498
Intangible assets	786,499	-	-	786,499
Other assets	10,769,314	-	-	10,769,314
	1,573,349,958	44,077,278	38,997,767	1,656,425,003
Off statement of financial position items:				
Unutilized limits of direct Islamic financing	25,492,145	-	-	25,492,145
Letters of guarantee	53,919,379	-	-	53,919,379
Letters of credit	4,604,799	-	-	4,604,799
	84,016,323	-	-	84,016,323

December 31, 2020	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	340,336,885	-	-	340,336,885
Balances at banks and financial institutions	147,582,627	11,965,461	18,716,845	178,264,933
Direct Islamic financing	885,476,487	-	-	885,476,487
Financial assets at fair value through profit or loss	1,286,319	-	-	1,286,319
Financial assets at fair value through other comprehensive items	3,710,705	-	-	3,710,705
Financial assets at amortized cost	-	11,033,706	2,912,706	13,946,412
Investment in associates	11,669,721	-	-	11,669,721
Investment properties	8,375,539	-	-	8,375,539
Property, plant and equipment	27,368,410	-	-	27,368,410
Projects in progress	2,702,117	-	-	2,702,117
Right-of-use assets	8,067,525	-	-	8,067,525
Deferred tax assets	5,150,501	-	-	5,150,501
Intangible assets	874,374	-	-	874,374
Other assets	24,101,388	-	-	24,101,388
	1,466,702,598	22,999,167	21,629,551	1,511,331,316
Off statement of financial position items				
Unutilized limits of Islamic financing	36,268,760	-	-	36,268,760
Letters of guarantee	61,982,235	-	-	61,982,235
Letters of credit	1,142,962	-	-	1,142,962
	99,393,957	-	-	99,393,957

	2021			2020		
	Assets	Liabilities and unrestricted investment accounts	Off statement of financial position items	Assets	Liabilities and unrestricted investment accounts	Off statement of financial position items
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
According to segment						
Retails	474,576,488	1,163,891,169	30,238,271	487,621,731	1,042,813,014	43,546,413
Corporates and institutions	415,786,952	126,591,548	53,778,052	397,854,756	122,145,106	55,847,544
Treasury	687,953,077	183,114,561	-	537,545,254	190,545,199	-
Others	78,108,486	44,178,645	-	88,309,575	32,493,193	-
Total	1,656,425,003	1,517,775,923	84,016,323	1,511,331,316	1,387,996,512	99,393,957

42. Fair value measurement

The Bank uses the following hierarchy for determining and disclosing the fair value:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.
- Level 3: Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

The Bank has not made any transfers between the above levels during 2021 and 2020.

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2021:

			Fair value Measurement using		
	Date of Measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets at fair value through profit or loss (note 6):					
Quoted	December 31, 2021	1,905,783	1,905,783	-	-
Financial assets at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2021	19,495,086	19,495,086	-	-
Unquoted	December 31, 2021	226,925	-	-	226,925
Investment properties (note10):	December 31, 2021	13,617,990	-	-	13,617,990
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost(note 8)					
Quoted	December 31, 2021	3,926,937	3,926,937	-	-

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2020:

			Fair value Measurement using		
	Date of Measurement	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $	U.S. $	U.S. $	U.S. $
Assets measured at fair value:					
Financial assets at fair value through profit or loss (note 6):					
Quoted	December 31, 2020	1,286,319	1,286,319	-	-
Financial assets at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2020	3,483,780	3,483,780	-	-
Unquoted	December 31, 2020	226,925	-	-	226,925
Investment properties (note10):	December 31, 2020	8,375,539	-	-	8,375,539
Financial assets that fair value has been disclosed:					
Financial assets at amortized cost (note 8):					
Quoted	December 31, 2020	3,031,807	3,031,807	-	-

- Sensitivity of unobservable inputs (Level 3):

Authorized external appraisers are assigned to assess the significant assets such as investments properties. After discussion with these external appraisers, the Bank selects the methods and inputs to be used for the valuation in each case, which are mostly sale prices for similar land during the year which are calculated at fair value per square meter of land multiplied by the number of square meters.

The following table represents the sensitivity of the fair value of investment properties:

	Increase / decrease in fair value	Impact on fair value
2021	%	U.S. $
Fair value per square meter		
Fair value per square meter	5+	680,900
	5-	(680,900)
2020		
Fair value per square meter	5+	418,777
Fair value per square meter	5-	(418,777)

43. Fair value of financial instruments

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

	Carrying amount		Fair value	
	2021	2020	2021	2020
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with Palestine Monetary Authority	441,197,039	340,336,885	441,197,039	340,336,885
Balances at banks and financial institutions	205,790,128	178,264,933	205,790,128	178,264,933
Direct Islamic financing	890,363,440	885,476,487	890,363,440	885,476,487
Financial assets at fair value through profit or loss	1,905,783	1,286,319	1,905,783	1,286,319
Financial assets at fair value through other comprehensive income	19,722,011	3,710,705	19,722,011	3,710,705
Financial assets at amortized cost	19,338,116	13,946,412	19,410,406	14,314,659
Other financial assets	8,974,046	22,987,647	8,974,046	22,987,647
	1,587,290,563	1,446,009,388	1,587,362,853	1,446,377,635
Financial liabilities				
Banks and financial institutions' deposits	183,114,561	190,545,199	183,114,561	190,545,199
Customers' deposits	321,267,408	325,999,812	321,267,408	325,999,812
Cash margins	68,145,170	71,385,535	68,145,170	71,385,535
Lease Liabilities	6,845,330	7,904,982	6,845,330	7,904,982
Other financial liabilities	22,298,333	12,916,033	22,298,333	12,916,033
	601,670,802	608,751,561	601,670,802	608,751,561
Unrestricted investment accounts	901,070,139	767,572,773	901,070,139	767,572,773

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, banks and financial institutions' deposits, customers' deposits, cash margins, lease liabilities, other financial liabilities and unrestricted investment accounts approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

- The fair value of financial assets at amortized cost was estimated using the expected future cash flows using the same discount rates at prevailing market prices.

- The fair value of direct Islamic financing is determined through the consideration of different variables such as rates of return, risk factors and the debtor's ability to pay. The carrying value for Islamic financing approximates its fair value as at December 31, 2021 and December 31, 2020.

44. Risk management process

The Bank's Board of Directors is responsible for identifying and controlling risks. In addition, there are several entities responsible for the Bank's risk management process in each department. The responsibility for developing the risk strategy and permissible limits lies on the Bank's Risk Committee, Governance Committee and Compliance Committee which are appointed by the Board of Directors of the Bank.

The Bank has established policies and procedures to control the risks, and to mitigate its effects as much as possible. The risk management department monitors the effectiveness of risk management on a monthly basis.

The Bank discloses information to help the users of the 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 financial statements as follows:

I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to the Bank. The Bank sets ceilings for direct Islamic financing (retail or corporate) and total Islamic financing 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.

A. Gross exposures to credit risk (net of ECL provisions and profit in suspense and prior to collaterals and other risk mitigations):

	2021	2020
	U.S. $	U.S. $
Statement of financial position items:		
Balances with Palestine Monetary Authority	220,340,369	200,373,048
Balances at banks and financial institutions	205,790,128	178,264,933
Direct Islamic financing	890,363,440	885,476,487
Financial assets at amortized cost	19,338,116	13,946,412
Debt instruments through other comprehensive income	14,333,591	
Other assets	8,974,046	22,987,647
Total statement of financial position items	1,359,139,690	1,301,048,527
Off statement of financial position items:		
Unutilized limits of Islamic financing	25,492,145	36,268,760
Letters of guarantee	53,919,379	61,982,235
Letters of credit	4,604,799	1,142,962
Total off statement of financial position items	84,016,323	99,393,957

B. Concentration of risk exposures according to FAS (30) and IFRS (9) as at December 31, 2021 and 2020:

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	220,682,914	-	-	220,682,914
Balances at banks and financial institutions	205,833,208	-	1,689,903	207,523,111
Direct Islamic financing:				
Public sector	138,841,342	-	-	138,841,342
Manufacturing and Agricultural	21,193,103	4,997,919	1,453,852	27,644,874
Service sector	1,363,396	26,826	1,812	1,392,034
Trade	200,072,585	24,812,071	14,048,194	238,932,850
Real estate and constructions	81,770,857	40,902,292	19,268,609	141,941,758
Lands	96,294,256	16,266,473	6,720,978	119,281,707
Consumers' Financing	172,215,669	23,617,377	4,692,950	200,525,996
Others	42,343,172	6,481,987	1,850,773	50,675,932
Financial assets at amortized cost	19,371,162	-	-	19,371,162
Debt instruments through other comprehensive income	14,333,591	-	-	14,333,591
Other assets	8,974,046	-	-	8,974,046
Total	1,223,289,301	117,104,945	49,727,071	1,390,121,317

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	200,373,048	-	-	200,373,048
Balances at banks and financial institutions	178,350,207	-	1,689,903	180,040,110
Direct Islamic financing:				
Public sector	132,458,148	-	-	132,458,148
Manufacturing and Agricultural	10,007,844	4,217,945	1,679,210	15,904,999
Service sector	1,808,763	88,766	4,490	1,902,019
Trade	190,607,545	36,001,100	20,052,668	246,661,313
Real estate and constructions	121,401,025	18,485,136	6,050,660	145,936,821
Lands	77,617,753	33,178,195	-	110,795,948
Consumers' Financing	188,182,875	19,882,519	3,293,202	211,358,596
Others	26,692,596	13,765,615	3,833,603	44,291,814
Financial assets at amortized cost	11,944,488	2,255,347	-	14,199,835
Other assets	22,987,647	-	-	22,987,647
Total	1,162,431,939	127,874,623	36,603,736	1,326,910,298

C. Concentration of risk exposures according to FAS (30) and IFRS (9) as at December 31, 2021 and 2020:

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	1,140,138,130	117,104,945	48,037,168	1,305,280,243
Jordan	44,128,252	-	-	44,128,252
Others	39,022,919	-	1,689,903	40,712,822
Total	1,223,289,301	117,104,945	49,727,071	1,390,121,317

2020	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	1,120,719,559	124,958,286	34,913,833	1,280,591,678
Jordan	20,082,828	2,916,337	-	22,999,165
Others	21,629,552	-	1,689,903	23,319,455
Total	1,162,431,939	127,874,623	36,603,736	1,326,910,298

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

December 31, 2021	Total Credit risk exposure	Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Total collaterals	Net Exposure after collaterals	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures relating to items on statement of financial position:									
Balances with PMA	220,682,914	-	-	-	-	-	-	220,682,914	342,545
Balances at banks and financial institutions	207,523,111	-	-	-	-	-	-	207,523,111	1,732,983
Direct Islamic financing:		-	-	-	-	-	-	-	-
Retails	500,583,808	14,268,433	117,393	113,741,472	20,000	78,271,275	206,418,573	294,165,235	13,930,648
Small and medium-sized institution	50,658,578	3,580,754	42,448	24,160,962	-	4,707,962	32,492,126	18,166,452	3,638,193
Corporates	229,152,765	11,865,132	3,043,869	77,022,805		12,994,049	104,925,855	124,226,910	9,043,584
Government and public sector	138,841,342	-	-	-	-	-	-	138,841,342	816,765
Financial assets at amortized cost	19,371,162	-	-	-	-	-	-	19,371,162	33,046
Debt instruments through other comprehensive income	14,333,591							14,333,591	586
Other financial assets	8,974,046	-	-	-	-	-	-	8,974,046	-
	1,390,121,317	29,714,319	3,203,710	214,925,239	20,000	95,973,286	343,836,554	1,046,284,763	29,538,350
Credit exposures relating to items off statement of financial position:	84,016,323	7,697,783	-	-	-	-	7,697,783	76,318,540	41,204
	84,016,323	7,697,783	-	-	-	-	7,697,783	76,318,540	41,204

December 31, 2020	Total Credit risk exposure	Cash margins	Letters of guarantee	Real estate	Quoted stocks	Vehicles and equipment	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Credit exposures relating to items on statement of financial position:									
Balances with PMA	200,373,048	--	--	--	--	-	-	200,373,048	-
Balances at banks and financial institutions	180,040,110	-	-	-	-	-	-	180,040,110	1,775,177
Direct Islamic financing:									
Retails	500,783,908	18,231,822	5,374	112,680,073	-	85,263,505	216,180,774	284,603,134	12,875,884
Small and medium-sized institution	68,329,300	10,124,112	-	34,753,792	-	5,110,886	49,988,790	18,340,510	5,915,107
Corporates	207,738,302	17,154,486	3,198,717	68,817,510	-	14,612,722	103,783,435	103,954,867	2,644,421
Government and public sector	132,458,148	-	-	-	-	-	-	132,458,148	480,913
Financial assets at amortized cost	14,199,835	-	-	-	-	-	-	14,199,835	253,423
Other financial assets	22,987,647	-	-	-	-	-	-	22,987,647	-
	1,326,910,298	45,510,420	3,204,091	216,251,375	-	104,987,113	369,952,999	956,957,299	23,944,925
Credit exposures relating to items off statement of financial position:	99,393,957	9,099,307	-	-	-	-	9,099,307	90,294,650	78,844
	99,393,957	9,099,307	-	-	-	-	9,099,307	90,294,650	78,844

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

December 31, 2021		Fair value of collaterals					
	Total Credit risk exposure	Cash margins	Real estate	Vehicles and equipment	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Direct Islamic financing:							
Retails	15,351,527	345,563	6,680,749	901,262	7,927,574	7,423,953	6,128,844
Corporates	7,481,309	124,383	4,627,282	135,674	4,887,339	2,593,970	3,253,093
Small and medium-sized institution	25,204,332	381,688	10,386,388	302,937	11,071,013	14,133,319	7,513,641
Total	48,037,168	851,634	21,694,419	1,339,873	23,885,926	24,151,242	16,895,578

December 31, 2020		Fair value of collaterals					
	Total Credit risk exposure	Cash margins	Real estate	Vehicles and equipment	Total collaterals	Net Exposure	ECL
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Direct Islamic financing:							
Retails	13,364,305	112,660	8,633,693	492,390	9,238,743	4,125,562	5,577,948
Corporates	6,189,212	31,818	2,098,297	11,460	2,141,575	4,047,637	2,783,471
Small and medium-sized institution	15,360,316	355,612	8,563,751	97,904	9,017,267	6,343,049	3,558,342
Total	34,913,833	500,090	19,295,741	601,754	20,397,585	14,516,248	11,919,761

Macroeconomic factors, expected future events and the use of more than one scenario
In estimating the ECL the Bank takes into account three scenarios (the normal scenario, the best scenario and the worst scenario), each with different weights of the probability of default and credit exposure at default and excepted loss at default.

The following are the effects of macroeconomic factors on expected future events using more than one scenario as of December 31, 2021:

Macroeconomic factors	Scenario used	Weight weighted for each scenario	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)	Percentage change in Macroecono-mic factors (%)
		(%)	2021	2022	2023	2024	2025	2026
Gross domestic product	Base scenario	50	4.40	6.00	4.10	2.40	2.00	2.00
	Best scenario	25	12.71	14.31	12.41	10.71	10.31	10.31
	Worst scenario	25	(3.91)	(2.31)	(4.21)	(5.91)	(6.31)	(6.31)
Unemployment rates								
	Base scenario	50	25.6	25.3	25.2	25.1	25.1	25.00
	Best scenario	25	21.25	20.95	20.85	20.75	20.75	20.65
	Worst scenario	25	29.95	29.65	29.55	29.45	29.45	29.35

The following are the impact of macroeconomic factors on expected future events using more than one scenario as of December 31, 2020:

Macroeconomic factors	Scenario used	Weight weighted for each scenario (%)	Percentage change in Macroecon o-mic factors (%) 2020	Percentage change in Macroecono-mic factors (%) 2021	Percentage change in Macroecono-mic factors (%) 2022	Percentage change in Macroecono-mic factors (%) 2023	Percentage change in Macroecono-mic factors (%) 2024	Percentage change in Macroecono-mic factors (%) 2025
Gross domestic product	Base scenario	40	(19.10)	5.69	2.70	(0.31)	(0.26)	(0.23)
	Best scenario	30	(11.39)	13.40	10.41	7.40	7.45	7.48
	Worst scenario	30	(22.96)	1.84	(1.16)	(4.17)	(4.12)	(4.09)
Unemployment rates								
	Base scenario	40	32.20	28.20	26.00	26.02	26.4	26.60
	Best scenario	30	30.32	26.32	24.12	24.32	24.52	24.72
	Worst scenario	30	33.14	29.14	26.94	27.14	27.34	27.54

F. Classification of debt securities facilities 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:

Credit rating	2021	2020
	U.S. $	U.S. $
Private sector:		
AAA to A-	7,879,998	750,604
BBB+ to B-	10,309,945	2,159,236
Unrated	15,514,810	11,289,995
Total	33,704,753	14,199,835

II. 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		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	190,578	516,150
Unquoted	10	-	22,693

	2020		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	128,632	348,378
Unquoted	10	-	22,693

III. Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The U.S. Dollars is the functional currency for the Bank. The Board of Directors sets limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

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

	2021		2020	
	Increase in currency	Effect on income statement	Increase in currency	Effect on income statement
Currency	(%)	U.S. $	(%)	U.S. $
ILS	10	191,822	10	359,871
Other currencies	10	11,609	10	604,36

Foreign currencies position of the Bank is as follows:

December 31, 2021	Equivalent to U.S. $ JOD	ILS	Other currencies	Total
Assets				
Cash and balances with PMA	78,234,157	240,504,177	1,791,182	320,529,516
Balances at banks and financial institutions	67,670,192	670,386	4,195,308	72,535,886
Direct Islamic financing	145,851,268	440,931,078	10,956,085	597,738,431
financial assets at fair value through profit or loss	1,905,783	-	-	1,905,783
financial assets at fair value through other comprehensive income	5,161,495	-	-	5,161,495
Financial assets at amortized cost	15,514,809	-	-	15,514,809
Investment properties	4,028,129	-	-	4,028,129
Projects in progress	14,549	93,079	-	107,628
Other assets	1,513,118	15,037,765	148,425	16,699,308
Total assets	319,893,500	697,236,485	17,091,000	1,034,220,985
Liabilities				
Banks' and financial institutions' deposits	-	156,286,381	1,828,180	158,114,561
Customers' deposits	57,381,126	185,156,762	4,515,448	247,053,336
Cash margin	11,905,207	22,821,783	3,463,040	38,190,030
Lease liabilities	2,420,336	15,339	-	2,435,675
Other liabilities	1,029,785	14,045,988	1,818,605	16,894,378
Total liabilities	72,736,454	378,326,253	11,625,273	462,687,980
Unrestricted investment accounts	249,277,262	316,992,006	5,349,637	571,618,905
Total liabilities and unrestricted investment account	322,013,716	695,318,259	16,974,910	1,034,306,885
Statement of financial position concentration	(2,120,216)	1,918,226	116,090	(85,900)
Commitments and contingencies	1,352,367	19,727,711	14,225,854	35,305,932

December 31, 2020	Equivalent to U.S. $ JOD	ILS	Other currencies	Total
Total assets	288,611,179	655,828,231	15,635,898	960,075,308
Total liabilities	73,910,242	383,886,687	10,010,033	467,806,962
Unrestricted investment accounts	214,227,663	268,342,831	5,021,498	487,591,992
Statement of financial position concentration	473,274	3,598,713	604,367	4,676,354
Commitments and Contingencies	1,412,250	22,901,096	16,597,921	40,911,267

IV. 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 arranges diversified funding sources, manages assets and liability with liquidity in mind, and monitors future cash flows and liquidity, and maintain an adequate balance of cash and cash equivalents.

The table below summarizes the allocation of assets and liabilities on the basis of the remaining contractual entitlement as at December 31, 2021 and 2020:

December 31, 2021	Less than 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and balances with PMA	431,600,110	9,449,929	-	-	-	147,000	441,197,039
Balances at banks and financial institutions	182,822,165	1,410,437	1,001,022	20,556,504	-	-	205,790,128
Direct Islamic financing	139,250,165	117,861,994	91,120,391	150,753,352	391,377,538	-	890,363,440
Financial assets at fair value through profit or loss	-	-	-	-	-	1,905,783	1,905,783
Financial assets at fair value through other comprehensive income	-	-	1,010,910	1,026,040	12,296,641	5,388,420	19,722,011
Financial assets at amortized cost	-	-	-	7,052,188	12,285,928	-	19,338,116
Investment in associates	-	-	-	-	-	11,578,192	11,578,192
Investment properties	-	-	-	-	-	13,617,990	13,617,990
Property, plant and equipment	-	-	-	-	-	25,998,655	25,998,655
Projects in progress	-	-	-	-	-	2,888,322	2,888,322
Right-of-use assets	-	-	-	-	-	6,938,016	6,938,016
Deferred tax assets	-	-	-	-	5,531,498	-	5,531,498
Intangible assets	-	-	-	-	-	786,499	786,499
Other assets	7,921,888	710,518	665,137	-	1,471,771	-	10,769,314
Total assets	761,594,328	129,432,878	93,797,460	179,388,084	422,963,376	69,248,877	1,656,425,003
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	158,114,561	-	-	-	25,000,000	-	183,114,561
Customers' deposits	321,267,408	-	-	-	-	-	321,267,408
Cash margin	2,048,782	6,061,696	4,616,941	11,353,547	44,064,204	-	68,145,170
Sundry provisions	-	-	-	-	10,512,490	-	10,512,490
Tax provisions	-	4,144,039	-	-	-	-	4,144,039
Lease liabilities	142,612	285,222	427,834	855,666	5,133,996	-	6,845,330
Other liabilities	22,676,786	-	-	-	-	-	22,676,786
Total liabilities	504,250,149	10,490,957	5,044,775	12,209,213	84,710,690	-	616,705,784
Unrestricted investment accounts	676,857,096	45,835,555	74,592,454	71,350,360	32,434,674	-	901,070,139
Equity							
Paid-in share capital						85,000,000	85,000,000
Additional paid- in capital	-	-	-	-	-	3,200,000	3,200,000
Statutory reserve	-	-	-	-	-	11,606,531	11,606,531
General banking risk reserve	-	-	-	-	-	4,384,678	4,384,678
Pro-cyclicality reserve	-	-	-	-	-	11,023,917	11,023,917
Investment properties reserve	-	-	-	-	-	187,345	187,345
Cumulative change in fair value	-	-	-	-	-	875,916	875,916
Retained earnings	-	-	-	-	-	22,370,693	22,370,693
Net equity	-	-	-	-	-	138,649,080	138,649,080
Total Liabilities, Unrestricted Investment Accounts and Equity	1,181,107,245	56,326,512	79,637,229	83,559,573	117,145,364	138,649,080	1,656,425,003
Maturity gap	(419,512,917)	73,106,366	14,160,231	95,828,511	305,818,012	(69,400,203)	-
Cumulative maturity gap	(419,512,917)	(346,406,551)	(332,246,320)	(236,417,809)	69,400,203	-	-

December 31, 2020	Less than 1 month U.S. $	More than 1 month up to 3 months U.S. $	More than 3 months up to 6 months U.S. $	More than 6 months up to 1 year U.S. $	More than 1 year U.S. $	Without maturity U.S. $	Total U.S. $
Assets							
Cash and balances with PMA	334,548,136	5,641,749	-	-	-	147,000	340,336,885
Balances at banks and financial institutions	154,759,882	9,067,978	-	14,437,073	-	-	178,264,933
Direct Islamic financing	59,162,558	89,728,217	58,958,211	102,015,833	575,611,668	-	885,476,487
Financial assets at fair value through profit or loss	-	-	-	-	-	1,286,319	1,286,319
Financial assets at fair value through other comprehensive income	-	-	-	-	-	3,710,705	3,710,705
Financial assets at amortized cost	-	-	4,731,312	666,337	8,548,763	-	13,946,412
Investment in associates	-	-	-	-	-	11,669,721	11,669,721
Investment properties	-	-	-	-	-	8,375,539	8,375,539
Property, plant and equipment	-	-	-	-	-	27,368,410	27,368,410
Projects in progress	-	-	-	-	-	2,702,117	2,702,117
Right-of-use assets	-	-	-	-	-	8,067,525	8,067,525
Deferred tax assets	-	-	-	-	5,150,501	-	5,150,501
Intangible assets	-	-	-	-		874,374	874,374
Other assets	17,829,714	1,564,970	1,465,016	-	3,241,688	-	24,101,388
Total assets	566,300,290	106,002,914	65,154,539	117,119,243	592,552,620	64,201,710	1,511,331,316
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	148,442,679	17,102,520	-	-	25,000,000	-	190,545,199
Customers' deposits	325,999,812	-	-	-	-	-	325,999,812
Cash margin	2,146,200	6,349,936	4,836,481	11,893,419	46,159,499	-	71,385,535
Sundry provisions	-	-	-	-	9,217,580	-	9,217,580
Tax provisions	-	2,043,961	-	-	-	-	2,043,961
Lease liabilities	164,688	329,374	494,062	988,122	5,928,736	-	7,904,982
Other liabilities	12,851,270	-	-	-	475,400	-	13,326,670
Total liabilities	489,604,649	25,825,791	5,330,543	12,881,541	86,781,215	-	620,423,739
Unrestricted investment accounts	711,588,115	17,052,302	21,936,750	16,877,283	118,323	-	767,572,773
Equity							
Paid-in share capital	-	-	-	-	-	80,000,000	80,000,000
Additional paid- in capital	-	-	-	-	-	3,200,000	3,200,000
Statutory reserve	-	-	-	-	-	10,238,012	10,238,012
General banking risk reserve	-	-	-	-	-	4,384,678	4,384,678
Pro-cyclicality reserve	-	-	-	-	-	11,023,917	11,023,917
Investment properties reserve	-	-	-	-	-	187,345	187,345
Cumulative change in fair value	-	-	-	-	-	(753,171)	(753,171)
Retained earnings						15,054,023	15,054,023
Net equity	-	-	-	-	-	123,334,804	123,334,804
Total Liabilities, Unrestricted Investment Accounts and Equity	1,201,192,764	42,878,093	27,267,293	29,758,824	86,899,538	123,334,804	1,511,331,316
Maturity gap	(634,892,474)	63,124,821	37,887,246	87,360,419	505,653,082	(59,133,094)	-
Cumulative maturity gap	(634,892,474)	(571,767,653)	(533,880,407)	(446,519,988)	59,133,094	-	-

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

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

Item	Value before applying discount rates/ Cash flows (average)	Value after applying discount rates/ Cash flows (average)
	U.S. $	U.S. $
Total high-quality assets	459,551,304	450,545,445
Retail deposits including deposits of small enterprises:		
A-Stable deposits	572,747,331	28,637,367
B -Less stable deposits	423,469,476	26,632,009
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	53,429,668	13,357,417
B-Non-operating deposits	16,878,419	6,751,368
Guaranteed financing and deposits	1,066,524,894	75,378,161
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	452,079,746	477,571,891
Total cash outflows	1,518,604,640	552,950,052
Secured granting		
Other inflows based on the counterparty	326,025,164	250,302,697
Total cash inflows	326,025,164	250,302,697
Net cash outflow - after adjustments		302,647,355
Total high-quality assets - after adjustments		450,545,445
Net cash outflow - after adjustments		302,647,355
Liquidity Coverage Ratio (%)		%149

The table below shows the calculation of the liquidity coverage ratio for the year ended December 31, 2020:

Item	Value before applying discount rates/ Cash flows (average)	Value after applying discount rates/ Cash flows (average)
	U.S. $	U.S. $
Total high-quality assets	346,773,320	343,555,102
Retail deposits including deposits of small enterprises:		
A-Stable deposits	554,637,281	27,731,864
B -Less stable deposits	448,431,227	39,559,565
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	57,736,899	14,434,225
B-Non-operating deposits	19,500,293	7,800,117
Guaranteed financing and deposits	1,080,305,700	89,525,771
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	310,651,374	310,651,374
Total cash outflows	1,390,957,074	400,177,145
Secured granting		
Other inflows based on the counterparty	225,732,842	181,246,275
Total cash inflows	225,732,842	181,246,275
Net cash outflow - after adjustments		218,930,870
Total high-quality assets - after adjustments		343,555,102
Net cash outflow - after adjustments		218,930,870
Liquidity Coverage Ratio (%)		%157

PMA issued instructions number (5/2018) regarding the application of the net stable financing ratio; the following table shows the calculation of the net stable financing ratio for the year ended December 31, 2021:

	2021
	U.S. $
Regulatory capital	146,314,597
Retail deposits and small institutions (stable)	544,498,859
Retail deposits and small institutions (less stable)	544,226,620
Secured and unsecured financing (deposits)	32,683,324
Total stable funding available	1,267,723,400
High quality liquid assets of the second level / category (A) not mortgaged	1,383,609
High quality liquid assets of the second level / category (B) not mortgaged	2,580,747
High quality liquid and mortgaged assets	72,046,885
Islamic financing	600,503,316
Unquoted investments other than the mentioned above	24,627,692
All other assets	24,742,055
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	1,274,607
Other potential future financing commitments	2,926,209
All off balance sheet exposures unlisted in the previous categories	2,926,209
Total required stable financing	733,011,329
Net stable financing ratio	%173

Net stable financing ratio for the year ended December 31, 2020:

Item	2020
	U.S. $
Regulatory capital	133,359,187
Retail deposits and small institutions (stable)	489,572,101
Retail deposits and small institutions (less stable)	388,767,544
Secured and unsecured financing (deposits)	36,937,344
Total stable funding available	1,048,636,176
High quality liquid assets of the second level / category (A) not mortgaged	1,677,180
High quality liquid assets of the second level / category (B) not mortgaged	2,385,049
High quality liquid and mortgaged assets	73,519,629
Islamic financing	690,728,674
Unquoted investments other than the mentioned above	11,716,871
All other assets	39,315,548
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	1,813,437
Other potential future financing commitments	3,156,260
All off balance sheet exposures unlisted in the previous categories	3,156,260
Total required stable financing	827,468,908
Net stable financing ratio	%127

45. Segment information

a. Information on the Bank's business segments

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

- Retail accounts: Includes handling individual customers' deposits and providing them with Islamic financing and other services.
- institution accounts: Includes handling Islamic financing, deposits and other banking services for corporate and institutional customers.
- Treasury: Includes providing trading and treasury services and the management of the Bank's funds and investments.

The Bank's business segments:

	Retail	Corporate	Treasury	Others	Total 2021	Total 2020
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	47,079,146	20,303,472	5,325,632	1,371,873	74,080,123	64,859,479
Net re-measurement of expected credit losses	(4,088,368)	(1,752,158)	(80,560)	-	(5,921,086)	(5,672,825)
Segment results	42,990,778	18,551,314	5,245,072	1,371,873	68,159,037	59,186,654
Unallocated expenses					(48,982,946)	(43,162,447)
Profit before taxes					19,176,091	16,024,207
Taxes expense					(5,490,902)	(4,854,484)
Profit for the year					13,685,189	11,169,723
Other information						
Depreciation and amortization					4,344,173	4,482,863
Capital expenditures					2,092,439	1,497,283
					2021	2020
					U.S. $	U.S. $
Total segment assets	480,638,959	409,724,481	687,953,077	78,108,486	1,656,425,003	1,511,331,316
Total segment liabilities and unrestricted investment accounts	1,163,934,513	126,548,204	183,114,561	44,178,645	1,517,775,923	1,387,996,512

b. Geographical distribution information

This disclosure represents the geographical distribution of the Bank's operations. The Bank mainly carries out its activities in Palestine which represents the local operations. In addition, the Bank carries out its activities outside Palestine which represents the foreign operations.

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

	Local		Foreign		Total	
	2021	2020	2021	2020	2021	2020
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total revenues	72,579,407	63,361,228	1,500,716	1,498,251	74,080,123	64,859,479
Capital expenditures	2,092,439	1,497,283	-	-	2,092,439	1,497,283

	Local		Foreign		Total	
	2021	2020	2021	2020	2021	2020
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	1,587,767,437	1,466,702,598	68,657,566	44,628,718	1,656,425,003	1,511,331,316

46. Capital management

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

The Bank manages its capital structure and adjusts it in light of changes in business conditions. The Bank did not make any adjustments to objectives and policies related to the capital structure during the year, except for raising the paid-in share capital by U.S. $ 5,000,000 through stock divdands .

The capital adequacy ratio is computed in accordance with PMA regulations derived from Basel Committee regulations as The following is the capital adequacy ratio for the year:

	2021			2020		
	Amount	Percentage to assets	Percentage to risk – weighted assets	Amount	Percentage to assets	Percentage to risk – weighted assets
	U.S. $	Percent	Percent	U.S. $	Percent	Percent
Regulatory capital	140,805,035	8.50%	14,28%	130,275,793	%8,62	%14,58
Basic capital	128,477,903	7.76%	13,03%	119,020,060	%7,88	%13,32

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
	U.S. $
Net of common shares (CET 1)	85,000,000
The first bracket of capital	128,477,903
The second bracket of capital	12,327,131
Capital base	140,805,035
Credit risk	869,720,198
Market risk	12,081,043
Operating risk	104,465,330
Total risk weighted assets	986,266,571
Percentage of common stocks (CET 1) to risk weighted assets	%8.68
Percentage of the first bracket of capital to risk weighted assets	%13.03
Percentage of the second bracket of capital to risk weighted assets	%1.26
Percentage of the first bracket to assets	%7.76
Percentage of regulatory capital to assets	%8.50
Capital adequacy ratio	%14.28

47. Development strategy

The Bank's development policy includes the following:

- Providing innovative financial solutions and products that are modern, Sharia-compliant, to meet the needs of all targeted segments.
- Focus on customer service and the allocation of services and products to suit their individual needs.
- Design and update all bank operations in order to raise performance and improve the quality of service.
- Flexibility and efficiency in the introduction of new products and services and increase the efficiency of operations and enhance the access of banking services to customers in a safe and effective way, through digital transformation and the benefit from technological development.
- Utilizing the data available in performance analysis, needs, product development and services.
- Developing the human recourses and provide an appropriate work environment.
- Continue to focus on reducing business risks and compliance with relevant domestic and international regulatory requirements.
- Optimize existing partnerships and build new work collaborations.
- Active participation by the Sharia Supervisory Board in seminars, conferences and workshops, which enhances the dissemination of the culture of Islamic banking.

48. Legal cases against the Bank

The number of litigations filed against the Bank were (75) and (63) in the amount of U.S. $ 15,602,224 and U.S. $ 8,612,159 as at December 31, 2021 and 2020, respectively. The Bank's management and lawyer believe that the Bank will not have any obligations in return for these cases, except for what has been provision against these litigations.

49. Concentration of risk in geographical area

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

50. The Impact of Coronavirus (COVID-19) on the Calculation of Expected Credit Losses Allowance

Expected credit loss allowance calculation

Determining the expected credit loss provision for credit financing requires the Bank's management to issue important judgments to estimate the amounts and timing of future cash flows, in addition to estimating any substantial increase in the credit risk of financial assets after their initial recognition, and taking into consideration future measurement information for expected credit losses.

In accordance with Financial Accounting Standard (30) and International Financial Reporting Standard (9), credit financing must be transferred from stage (1) to stage (2) if, and only if, there has been a material increase in credit risk since inception. A significant increase in credit risk occurs when there is a significant increase in the risk of default.

The Bank assessed borrowers for other indications of unwillingness to pay, considering the underlying cause of any financial difficulty and whether it is likely to be temporary because of the spread of Covid-19 or in the long term.

During the year, the Bank also updated the macroeconomic factors according to the latest issue from the International Monetary Fund and the Palestinian Central Bureau of Statistics, in addition to changing the weighted possibilities for macroeconomic scenarios by calculating larger weights for the worst-case scenario, which negatively affected the calculation of the expected credit loss provisions.

Relevant Palestine Monetary Authority instructions

As a result of the spread of Coronavirus (Covid-19), on March 15, 2020, PMA issued Instructions No. (4/2020) related to PMA measures to mitigate the effects of the health crisis, as it included a set of decisions, the most prominent of which was instructing banks to postpone customer payments for four months and the tourism sector for six months extendable, in which the Banks are prohibited from collecting any additional fees, commissions or returns on the deferred installments. Based on these instructions, the Bank has postponed the financing installments to the customers. Also, on June 30, 2020, PMA issued Instructions No. (23/2020) that required Islamic banks to grant customers whose installments were postponed a grace period to pay their deferred installments until December 31, 2021. This was accompanied by some measures taken by the Palestinian government and PMA (which had an impact on the Banking sector and the Bank's business), such as not including customers who has declined checks for financial reasons in the black list and not charging them with the any commissions.

In July 22, 2020, the Monetary Authority issued Instructions No. (27/2020) regarding mitigating the effects of the financial crisis and the Coronavirus crisis, according to which the Bank restructured or rescheduled funds or granted the customer a temporary securitization ceiling in the amount of installments owed on him or restructured the lease-to-own In addition to granting the customer, upon his request, a temporary securitization ceiling in the value of his obligations during the period from July 1, 2020 until January 1, 2021.

In response to the instructions of PMA No. (23/2020), the Bank began during the year 2020 a program to reduce payments to support its affected customers by postponing the installments due for a period of four months to six months, so that they were given a grace period to pay their deferred installments. The Bank has postponed / restructured the financing installments of clients of the affected economic sectors from companies and individuals without adding any returns in accordance with the instructions of PMA No. (23/2020). The deferred profits are amortized over the extended contractual term of the financing

These paid exemptions are short-term liquidity for the purpose of addressing the borrower's cash flow issues. The Bank believes that extending payment does not automatically lead to a material 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 extent of the potential impact of COVID-19 on the economic sector, future outlook, cash flows, financial strength, mobility, and change in the risk profile along with the previous record in identifying a significant increase in credit risk.

Incnetivise deposits from PMA

During the year, the Bank received an Incnetivise deposit from PMA amounting to U.S. $ 25 million at a yield less than the market return with a maturity of three years, with the aim of mitigating the economic effects of the Coronavirus (Covid 19) crisis on the Bank's activities and the subsequent losses due to the delay in customer payments during the year 2020.

Istidama Sustainability Program from PMA

In accordance with the instructions of PMA No. (8/2021) and (22/2020) and with the aim of mitigating the economic effects of the Coronavirus crisis (Covid 19) on economic activities and projects, especially small and medium enterprises, sustainable financing has been granted by PMA so that the Bank is committed to collecting a diminishing return of up to 3% of Borrowers.

Accounting Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

On May 21, 2020, the Accounting Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued a statement "The accounting effects and consequences of the Corona epidemic" to provide clarifications and explanations regarding the accounting treatment in accordance with the financial accounting standards issued by AAOIFI in which the statemenets urged the Banks to amortize the reminaing deferred profits over the period of the financincing and prohibit to calculate the present value of the financing or applying the concept of missed opportunity.

51. Comparative figures

Some of the balances of the financial statements as of 31 December 2020 have been reclassified to match the presentation of the balances of the financial statements as of 31 December 2021. These reclassifications do not affect the profits of previous years or equity.