PALESTINE ISLAMIC BANK

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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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, 2022, 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, 2022, 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, 2022.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, 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 as at December 31, 2022 amounted to U.S. $ 931,193,383. The balance of the expected credit loss provision on these assets was U.S. $30,789,787 as at December 31, 2022 Accounting policies, estimates and significant accounting judgments, disclosure of provision for expected credit losses, and credit risk management are detailed in notes (2, 5, 32, and 44) 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 2022 Annual Report

Other information consists of the information included in the Bank's 2022 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the 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, 2022 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East
License # 206/2012

Abdelkarim M.
Ernst + Young

Abdelkarim Mahmoud
License # 101/2017

Ramallah, Palestine
March 15, 2023

STATEMENT OF FINANCIAL POSITION
As at December 31, 2022

	Notes	December 31, 2022 U.S. $	December 31, 2021 U.S. $
Assets			
Cash and balances with Palestine Monetary Authority	3	348,735,843	441,197,039
Balances at banks and financial institutions	4	143,218,877	205,790,128
Direct Islamic financing	5	898,219,397	890,363,440
Financial assets at fair value through profit or loss	6	1,855,007	1,905,783
Financial assets at fair value through other comprehensive income	7	26,009,182	19,722,011
Financial assets at amortized cost	8	21,947,148	19,338,116
Investment in associates	9	11,583,682	11,578,192
Investment properties	10	9,906,120	13,617,990
Property, plant and equipment	11	26,309,690	25,998,655
Projects in progress	12	3,705,537	2,888,322
Right-of-use assets	13	5,670,183	6,938,016
Deferred tax assets	20	6,265,249	5,531,498
Intangible assets	14	834,081	786,499
Other assets	15	12,075,934	10,769,314
Total assets		1,516,335,930	1,656,425,003
Liabilities, unrestricted investment accounts and equity			
Liabilities			
Banks and financial institutions' deposits	16	80,424,942	183,114,561
Customers' deposits	17	295,071,619	321,267,408
Cash margins	18	67,120,481	68,145,170
Sundry provisions	19	11,211,270	10,512,490
Tax provisions	20	6,222,334	4,144,039
Lease liabilities	21	5,843,612	6,845,330
Other liabilities	22	27,563,060	22,676,786
Total liabilities		493,457,318	616,705,784
Unrestricted investment accounts	23	874,417,501	901,070,139
Equity			
Paid-in share capital	1	90,000,000	85,000,000
Additional paid-in capital		3,200,000	3,200,000
Statutory reserve	24	13,141,137	11,606,531
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	301,798	187,345
Cumulative change in fair value	7	227,436	875,916
Retained earnings		26,182,145	22,370,693
Net equity		148,461,111	138,649,080
Total liabilities, unrestricted investment accounts and equity		1,516,335,930	1,656,425,003

The accompanying notes from 1 to 49 form part of these financial statements

INCOME STATEMENT
For the year ended December 31, 2022

	Notes	2022 U.S. $	2021 U.S. $
Revenues			
Investment and financing revenues	25	57,294,545	54,942,566
Less: Return on unrestricted investment accounts	26	(6,518,537)	(7,635,462)
Bank's share of income from financing and investments		50,776,008	47,307,104
Net commissions revenues	27	9,735,011	9,929,160
Foreign currency exchange gains		3,803,788	3,983,292
Bank's share of the associates' results of operations	9	422,991	375,719
Income from financial assets at fair value through profit or loss	6	434,708	619,464
Income from financial assets at amortized cost and other comprehensive income	7 and 8	1,040,528	588,701
Cash dividends	28	502,116	377,920
Other revenues	29	665,813	1,371,873
Total revenues		67,380,963	64,553,233
Expenses			
Personnel expenses	30	(20,483,358)	(20,502,504)
Other operating expenses	31	(15,444,598)	(13,082,818)
Provision for expected credit losses, net	32	(4,348,304)	(5,921,086)
Depreciation and amortization	11,13 and 14	(4,383,129)	(4,344,173)
Sundry provisions	19	(57,801)	(117,080)
Finance costs on lease liabilities	21	(180,465)	(212,093)
Loss on impairment of investments properties	10	(800,000)	(1,187,388)
Palestine Monetary Authority penalties	33	(90,000)	(10,000)
Total expenses		(45,787,655)	(45,377,142)
Profit before taxes		21,593,308	19,176,091
Taxes expense	20	(6,247,250)	(5,490,902)
Profit for the year		15,346,058	13,685,189
Basic and diluted earnings per share	38	0.17	0.15

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2022

	Notes	2022	2021
		U.S. $	U.S. $
Profit for the year		15,346,058	13,685,189
Items that will not be reclassified to income statement in subsequent periods:			
Change in fair value of financial assets		(648,480)	1,678,836
Change in fair value of investment properties	10	156,227	-
Deferred taxes	22	(41,774)	-
Bank's share of the associates' other comprehensive income	9	-	(49,749)
Net other comprehensive income		(534,027)	1,629,087
Net comprehensive income for the year		14,812,031	15,314,276

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2022

			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, 2022	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, as at January 1, 2022	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
Profit for the year	-	- -	-	-	-	-	-	15,346,058	15,346,058
Other comprehensive income	-	-	-	-	-	114,453	(648,480)	-	(534,027)
Total comprehensive income for the year	-	-	-	-	-	114,453	(648,480)	15,346,058	14,812,031
Transfer to reserves	-	-	1,534,606	-	-	-	-	(1,534,606)	-
Stock dividends distributions (note 34)	5,000,000	-	-	-	-	-	-	(5,000,000)	-
Cash dividends (note 34)	-	-	-	-	-	-	-	(5,000,000)	(5,000,000)
Balance, as at December 31, 2022	90,000,000	3,200,000	13,141,137	4,384,678	11,023,917	301,798	227,436	26,182,145	148,461,111
December 31, 2021									
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

The accompanying notes from 1 to 49 form part of these financial statements

STATEMENT OF CASH FLOWS
For the year ended December 31, 2022

	Notes	2022 U.S. $	2021 U.S. $
Operating activities			
Profit before taxes		21,593,308	19,176,091
Adjustments for:			
Gain on financial assets at fair value through profit or loss		(434,708)	(619,464)
Loss on impairment of investment properties		800,000	1,187,388
Sundry provisions		2,114,993	1,947,965
Depreciation and amortization		4,383,129	4,344,173
Bank's share of the associates' results of operations		(422,991)	(375,719)
Cash dividends		(502,116)	(377,920)
Provision for expected credit losses, net		4,348,304	5,921,086
Gain from disposal of lease liabilities		(9,707)	(29,025)
Loss on sale and disposal of property, plant and equipment		-	86,517
Amortization of net discount and premium on financial assets at amortized cost and at fair value through other comprehensive income		285,991	39,822
Gain from sale of investment properties		(8,958)	(61,268)
Finance costs on lease liabilities		180,465	212,093
		32,327,710	31,451,739
Changes in assets and liabilities:			
Statutory cash reserve		(7,600,884)	(16,501,686)
Restricted balances with Banks and financial institutions		1,021,345	(957,918)
Deposits at banks and financial institutions for more than three months		(11,938,912)	(25,269,832)
Banks and financial institutions Deposits for more than three months		(3,779,517)	3,779,517
Direct Islamic financing		(9,877,208)	(18,502,943)
Other assets		(560,956)	13,731,073
Customers' deposits		(26,195,789)	(4,732,404)
Cash margins		(1,024,689)	(3,240,365)
Other liabilities		4,363,906	9,298,085
Net cash flows used in operating activities before provisions and taxes		(23,264,994)	(10,944,734)
Taxes paid		(4,902,706)	(3,771,821)
Sundry provisions paid		(1,416,213)	(653,055)
Net cash flows used in operating activities		(29,583,913)	(15,369,610)
Investing activities			
Purchase of property, plant and equipment and intangible assets		(3,069,414)	(1,727,504)
Projects in progress additions		(1,355,180)	(364,935)
Cash dividends from associates		417,501	417,499
Cash dividends received		502,116	377,920
Matured financial assets at amortized cost		7,052,186	5,392,302
Purchase of financial assets at amortized cost		(9,873,061)	(10,590,382)
Sale of investment properties		924,984	1,187,202
Purchase of investment properties		(40,620)	-
Matured financial assets at fair value through other comprehensive income		2,000,000	-
Purchase of financial assets at fair value through other comprehensive income		(8,700,577)	(14,346,125)
Net cash flows used in investing activities		(12,142,065)	(19,654,023)
Financing activities			
Cash dividends distributed		(4,847,222)	-
Lease liabilities paid		(1,039,009)	(1,307,314)
Unrestricted investment accounts		(26,652,638)	133,497,366
Net cash flows (used in) from financing activities		(32,538,869)	132,190,052
(Decrease) Increase in cash and cash equivalents		(74,264,847)	97,166,419
Cash and cash equivalents, beginning of the year		256,704,670	159,538,251
Cash and cash equivalents, end of the year	37	182,439,823	256,704,670

The accompanying notes from 1 to 49 form part of these financial statements

STATEMENT OF SOURCES AND USES OF EARNINGS PROHIBITED BY SHARIA’
For the year ended December 31, 2022

	Note	2022 U.S. $	2021 U.S. $
Earnings prohibited by Sharia’			
Balance, beginning of the year		3,802	12,393
Profit from direct Islamic financing		2,421	7,186
Profit received		11,393	31,415
Total earnings prohibited by Sharia’ at the end of year		17,616	50,994
Disbursements of earnings prohibited by Sharia’			
Donations		-	(46,912)
Foreign currency exchange		(443)	(280)
Total disbursements of earnings prohibited by Sharia’		(443)	(47,192)
Balance of earnings prohibited by Sharia’ at the end of year	22	17,173	3,802

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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 nineteen offices that are spread through Palestine.

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 2021 its Paid-in share capital increased to U.S. $ 85,000,000, and during 2021, the Bank's Paid-in share capital was increased to U.S. $ 90,000,000 through stock dividends.

The total number of the Bank's staff is (692) and (658) as at December 31, 2022 and December 31, 2021, respectively.

The financial statements were authorized for issuance by the Bank's Board of Directors on February 26, 2023.

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, except for financial Instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income, and investment properties that have been measured at fair value at the date of the financial statements.

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, 2021.

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 2022 (Public Presentation and Disclosure in Financial Statements)

Financial Accounting Standard 1 – Revised 2022 "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 2022 is in line with the amendments to the AAOIFI Financial Reporting Conceptual Framework (Revised 2021) (Conceptual Framework). Revised Financial Accounting Standard 1 – 2022 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. 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

Profit income is recognized as the profit accrues using the effective profit method except for profit and commission income on defaulted facilities.

Income from Islamic financing is recognized based on the accrual basis of accounting and using the effective profit method. Commission income is recognized when the services are rendered. Dividends income are recognized when the right to receive dividends is established.

Expenses are recognized when incurred based on the accrual basis of accounting.

Financial assets and liabilities

Financial assets at amortized cost

The Bank measures financial investments at amortized cost if both of the following conditions are met:

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

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

Financial instruments for which both conditions apply are initially measured at fair value taking into account any discount or premium on acquisition, fees and costs that are an integral part of the effective interest rate (EIR), unless the Bank elected to classify these investments through profit or loss, Interest recorded using EIR.

The effective profit rate is the profit rate that is used to discount future cash flows on the life of the instrument, or lower period in other cases, to equal the book value of at initial recognition.

At initial recognition the bank can irreversibly classify the instrument that fulfilled the conditions mentioned above as a financial asset at fair value through profit or loss if this removes or substantially decrease the inconsistency of accounting treatment if it is classified as amortized cost.

Financial assets at fair value through profit or loss (FVTPL)

Debt instrument financial assets that do not meet the amortized cost criteria or that meet the criteria, but the Bank has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. The Bank has not designated a debt instrument financial asset that meets the amortized cost criteria as at FVTPL.

Upon initial recognition, the Bank classifies equity instruments at fair value through profit or loss except for investments that are not held for trading for which the Bank can classify it at fair value through other comprehensive income (FVOCI).

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit or loss.

Dividends from investments in financial assets are recognized when the right of the payment has been established.

Financial assets 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.

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 of 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 classifies debt instruments at FVOCI 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.

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

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

<u>International Financial Reporting Standard No. (9) Financial Instruments</u>

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 %	
	2022	2021	2022	2021	2022	2021
Saving deposits	40	40	85	70	15	30
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.

<u>Financial assets investments</u>

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:

<u>Financial assets at fair value</u>

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):

1- 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.

2- 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.

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

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

5- 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.

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

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

8- All customer exposures breaching debt covenants.

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

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

11- 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.

12- 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:

	2022	2021
	U.S. $	U.S. $
Cash on hand	130,276,737	220,856,670
Balances at PMA:		
Current and on demand accounts	106,456,963	94,694,936
Deposits maturing within three months	-	9,449,929
Statutory cash reserve	112,229,906	116,391,049
Restricted balances	147,000	147,000
	349,110,606	441,539,584
Provision for expected credit losses	(374,763)	(342,545)
	348,735,843	441,197,039

- According to PMA circular number (10/2022) the Bank shall maintain statutory cash reserves with PMA at 9% of deposits included in the mandatory reserve, in addition to 100% of the stagnant balances. 20% of this reserve is allocated to offset the results of clearing and settlements under the name of "settlement reserve". The Bank may not dispose of the mandatory reserve with PMA, except for the settlement reserve, which the Bank is allowed to utilize in accordance with the instructions in force. PMA does not pay any interest on mandatory reserve balances.

- PMA does not pay interest on statutory cash reserves, or current and on demand accounts.
- Restricted balances as at December 31, 2022 and 2021 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:

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2022	220,682,914	-	-	220,682,914
Net change during the year	(1,849,045)	-	-	(1,849,045)
Balance as of December 31, 2022	218,833,869	-	-	218,833,869

	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

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2022	342,545	-	-	342,545
Net re-measurement of expected credit losses during the year	32,218	-	-	32,218
Balance as of December 31, 2022	374,763	-	-	374,763

	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:

	2022	2021
	U.S. $	U.S. $
Local banks and financial institutions:		
Current and on demand accounts	9,508,564	12,370,754
Deposits maturing within three months	55,790,603	140,212,036
Deposits maturing within more than three months	-	3,754,000
Cash margin	50,000	50,000
	65,349,167	156,386,790
Foreign banks and financial institutions:		
Current and on demand accounts	35,236,675	16,866,828
Deposits maturing within three months	7,052,186	11,283,497
Deposits maturing within more than three months	37,208,744	21,515,832
Cash margin	448,819	1,470,164
	145,295,591	207,523,111
Provision for expected credit losses	(2,076,714)	(1,732,983)
	143,218,877	205,790,128

- Non-profit bearing balances at banks and financial institutions amounted to U.S. $ 101,034,661 and U.S. $ 174,723,782 as at December 31, 2022 and 2021, respectively.

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2022	205,833,208	-	1,689,903	207,523,111
Net change during the year	(62,227,520)	-	-	(62,227,520)
Balance as of December 31, 2022	143,605,688	-	1,689,903	145,295,591

	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

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, 2022	43,080	-	1,689,903	1,732,983
Net re-measurement of expected credit losses during the year	343,731	-	-	343,731
Balance as of December 31, 2022	386,811	-	1,689,903	2,076,714

	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

5. Direct Islamic financing

This item represents the following:

	2022	2021
	U.S. $	U.S. $
Murabaha receivables	821,257,860	792,997,250
Istisna'a financing	32,562,812	33,949,932
Tawaroq	23,618,129	36,343,292
Islamic credit cards	22,251,054	19,264,338
Musawama financing	14,686,966	19,230,755
Ijara muntahia bittamleek	11,413,769	9,124,367
Current overdraft accounts	2,431,912	3,989,400
Qard Hasan	2,970,881	4,337,159
	931,193,383	919,236,493
Suspended profits	(2,184,199)	(1,443,863)
Provision for expected credit losses	(30,789,787)	(27,429,190)
	898,219,397	890,363,440

- Islamic financing net of unearned profits amounted to U.S. $ 113,090,712 and U.S. $ 102,163,770 as at December 31, 2022 and 2021, respectively.
- Downgraded direct Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 127,850,800 and representing (13.76%) of the direct Islamic financing net of the suspended profits and U.S. $ 109,310,162 representing (11.91%) of direct Islamic financing net of the suspended profits as at December 31, 2022 and 2021, respectively.
- Defaulted direct Islamic financing net of suspended profits according to PMA regulations amounted to U.S. $ 46,585,122 representing (5.01%) of the direct Islamic financing net of the suspended profits and U.S. $ 46,593,305 representing (5.08%) 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. $ 131,567,604 representing (14.13%) of gross Islamic financing and U.S. $ 138,841,342 representing (15.1%) 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. $ 402,366,557 and U.S. $ 343,836,554 as at December 31, 2022 and 2021, 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. $ 2,582,208 and U.S. $ 2,632,680 as at December 31, 2022 and 2021, respectively.
- The balance of provision and suspended profits for defaulted accounts amounted to U.S. $ 20,892,200 and U.S. $ 18,339,441 as at December 31, 2022 and 2021, respectively.

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

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2022	754,094,380	117,104,945	48,037,168	919,236,493
Transferred to stage (1)	18,461,052	(13,669,257)	(4,791,795)	-
Transferred to stage (2)	(88,367,243)	95,701,628	(7,334,385)	-
Transferred to stage (3)	(4,107,280)	(16,109,514)	20,216,794	-
Net change during the year	51,296,898	(31,981,547)	(7,248,357)	12,066,994
Written off	-	-	(110,104)	(110,104)
Balance of December 31, 2022	731,377,807	151,046,255	48,769,321	931,193,383

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 as of December 31, 2021	754,094,380	117,104,945	48,037,168	919,236,493

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

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2022	5,616,120	4,917,492	16,895,578	27,429,190
Transferred to stage (1)	987,740	(210,343)	(777,397)	-
Transferred to stage (2)	(683,332)	2,632,972	(1,949,640)	-
Transferred to stage (3)	(22,820)	(140,614)	163,434	-
Net re-measurement of expected credit losses during the year	(1,323,999)	308,570	4,484,391	3,468,962
Excluding provision for defaulted Islamic financing for more than 6 years	-	-	(108,365)	(108,365)
Balance as of December 31, 2022	4,573,709	7,508,077	18,708,001	30,789,787

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

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	2,632,680	2,435,301
Additions	108,365	365,301
Written off	(158,837)	(167,922)
Balance, end of the year	2,582,208	2,632,680

The movement on the suspended profits is as follows:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	1,443,863	1,916,846
Suspended profits during the year	1,180,933	690,281
Suspended profits recovered	(438,858)	(1,136,975)
Excluding suspended profits for defaulted Islamic financing for more than 6 years	(1,739)	(26,289)
Balance, end of the year	2,184,199	1,443,863

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

	2022	2021
	U.S. $	U.S. $
Public sector		
Palestine National Authority	131,567,604	138,841,342
Manufacturing and Agricultural		
Manufacturing	7,139,636	5,589,414
Agricultural	26,695,799	22,004,312
	33,835,435	27,593,726
Services sector	1,549,659	1,389,459
Trade		
Internal trade	213,186,084	216,345,405
External trade	6,638,097	22,145,379
	219,824,181	238,490,784
Real Estate and Construction		
Constructions	120,637,011	108,778,988
Permanent residence and houses improvement	29,187,298	32,995,810
	149,824,309	141,774,798
Lands	113,747,348	119,022,226
Consumers' Financing		
Cars financing	189,185,050	168,313,076
Consumable goods financing	35,790,526	31,841,912
	224,975,576	200,154,988
Others	53,685,072	50,525,307
	929,009,184	917,792,630

6. Financial assets at fair value through profit or loss

This item represents the bank's investment in quoted shares at Palestine Securities Exchange, the fair value of the investments as of December 31, 2022 and 2021 was U.S. $ 1,855,007 and U.S. $ 1,905,783, respectively.

The Bank recorded gain on revaluation of financial assets at fair value through profit or loss in the income statement in the amount of U.S. $ 434,708 and U.S. $ 619,464 for the year ended December 31, 2022 and 2021, respectively.

The Bank recorded gain on cash dividends from financial assets at fair value through profit and loss in the amount of U.S. $ 135,402 as at December 31, 2022 and U.S. $ 101,911 as at December 31, 2021 (Note 28).

7. Financial assets at fair value through other comprehensive income

This item represents the following:

	2022	2021
	U.S. $	U.S. $
Quoted debt instruments in foreign financial markets – Sukuk*	19,258,050	14,333,591
Quoted financial assets in local financial markets	6,456,877	5,161,495
Quoted financial assets in foreign financial markets	67,330	-
Unquoted financial assets in local financial markets**	226,925	226,925
	26,009,182	19,722,011

* Income from debt instruments amounted to U.S. $ 350,062 and U.S. $ 110,112 for the year ended December 31, 2022 and 2021, respectively. The Bank also recorded income on cash dividends from financial assets at fair value through other comprehensive income in the amount of U.S. $ 366,714 and $ 276,009 for the year ended December 31, 2022 and 2021, respectively (Note 28).

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

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	875,916	(753,171)
Change in fair value of financial assets through other comprehensive income	(648,480)	1,678,836
The Bank's share of the associate's other comprehensive items	-	(49,749)
Balance, end of the year	227,436	875,916

8. Financial assets at amortized cost

	2022	2021
	U.S. $	U.S. $
Financial securities quoted at foreign financial markets - Sukuk	3,813,845	3,856,353
Unquoted foreign financial securities – Deposit certificates	18,335,684	15,514,809
	22,149,529	19,371,162
Provision for expected credit losses	(202,381)	(33,046)
	21,947,148	19,338,116

Income from investments at amortized cost was in the amount of U.S. $ 690,466 and U.S. $ 478,589 for the year ended December 31, 2022 and 2021, respectively.

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

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2022	19,371,162	-	-	19,371,162
Additions	9,873,061	-	-	9,873,061
Matured	(7,052,186)	-	-	(7,052,186)
Amortized	(42,508)	-	-	(42,508)
Balance at December 31, 2022	22,149,529	-	-	22,149,529

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

The movement on provision for expected credit losses on financial assets at amortized cost as of December 31, 2022 and 2021 is as follows:

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as at January 1, 2022	33,046	-	-	33,046
Net re-measurement of expected credit losses	169,335	-	-	169,335
Balance, as at December 31, 2022	202,381	-	-	202,381

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

9. Investment in associates

The following table shows the Bank's investment in associates as at December 31, 2022 and December 31, 2021:

	Country of Incorporation	Ownership	2022	2021
		%	U.S. $	U.S. $
Al-Takaful Palestinian Insurance Company *	Palestine	28 %	7,486,270	7,669,266
Palestine Ijara Company **	Palestine	33 %	4,097,412	3,908,926
			11,583,682	11,578,192

* 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, 2022, 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, 2022, 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:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	11,578,192	11,669,721
Bank's share of the associate's results of operations	422,991	375,719
Bank's share of the associate's other comprehensive income	-	(49,749)
Cash dividends	(417,501)	(417,499)
Balance, end of the year	11,583,682	11,578,192

The following table summarizes the financial information related to the Bank's investment in its associates as at December 31, 2022 and December 31 , 2021 :

	Al-Takaful		PIC	
	2022	2021	2022	2021
The financial position of associates:	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	93,480,027	89,442,308	25,813,739	23,448,483
Total liabilities	69,525,411	66,999,922	13,521,504	11,721,699
Total equity	23,954,616	22,442,386	12,292,235	11,726,784
Book value before adjustments	6,666,570	6,245,716	4,097,412	3,908,926
Adjustments	819,700	1,423,550	-	-
Book value after adjustments	7,486,270	7,669,266	4,097,412	3,908,926
Revenues and results of operations:				
Net revenues	14,557,255	9,689,104	2,660,973	2,238,737
Operational, administrative and general expenses	(7,648,286)	(7,995,499)	(927,310)	(694,719)
Depreciation and amortization	(879,591)	(869,535)	(77,250)	(71,062)
Finance costs	(54,036)	(65,633)	(480,171)	(456,928)
Foreign currency (loss) gain	(3,780,618)	1,254,902	(856,704)	294,169
Other revenues	894,373	759,865	487,105	-
Income before tax	3,089,097	2,773,204	806,643	1,310,197
Tax expense	(990,385)	(745,992)	(194,553)	(183,036)
Net income for year after tax	2,098,712	2,027,212	612,090	1,127,161
Adjustments	(1,256,078)	(2,027,212)	-	-
Net income for year after tax-adjustments	842,634	-	612,090	1,127,161
Bank's share from the year's results of operations	234,505	-	188,486	375,719
Bank's share from other comprehensive income	-	(49,749)	-	-

10. Investment properties

Following is the movement on Investment properties:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	13,617,990	8,375,539
Additions	40,620	7,853,664
Transferred from property, plant and equipment	-	179,308
Investment properties sold	(3,108,717)	(1,603,133)
Loss on impairment of investments properties	(800,000)	(1,187,388)
Change in fair value during the year through other comprehensive income	156,227	-
Balance, end of the year	9,906,120	13,617,990

Following is the movement on investment properties reserve:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	187,345	187,345
Unrealized losses on revaluation	156,227	-
Deferred tax liabilities	(41,774)	-
Balance, end of year	301,798	187,345

The Bank recorded gain on sale of investment properties in the amount of U.S. $ 8,958 and U.S. $ 61,268 for the year ended December 31, 2022 and 2021, respectively (Note 29).

11. Property, plant and equipment

December 31, 2022	Real estate	Furniture, equipment and leasehold improvements	Motor vehicles	Computers	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:					
Balance, beginning of the year	15,818,490	23,557,014	90,893	5,809,130	45,275,527
Additions	801,210	723,168	48,540	1,363,901	2,936,819
Transferred from projects in progress (note 12)	-	288,299	-	-	288,299
Disposals	-	(7,571)	-	-	(7,571)
Balance, end of the year	16,619,700	24,560,910	139,433	7,173,031	48,493,074
Accumulated depreciation:					
Balance, beginning of the year	3,825,625	11,139,797	57,500	4,253,950	19,276,872
Depreciation for the year	440,399	1,847,774	17,880	608,030	2,914,083
Disposals	-	(7,571)	-	-	(7,571)
Balance, end of the year	4,266,024	12,980,000	75,380	4,861,980	22,183,384
Net book value as at December 31, 2022	12,353,676	11,580,910	64,053	2,311,051	26,309,690
Net book value as at December 31, 2021	11,992,865	12,417,217	33,393	1,555,180	25,998,655

12. Projects in progress

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	2,888,322	2,702,117
Additions during the year *	1,355,180	364,935
Transferred to property, plant and equipment (note 11)	(288,299)	(103,960)
Transferred to intangible assets (note 14)	(249,666)	(74,770)
Balance, end of the year	3,705,537	2,888,322

* 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, 2022 is estimated to U.S. $ 5,267,059 and it is expected to be completed in 2023.

13. Right-of-use assets

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	6,938,016	8,067,525
Additions during the year	194,347	168,011
Disposals during the year	(327,813)	(103,417)
Depreciation for the year	(1,134,367)	(1,194,103)
Balance, end of the year	5,670,183	6,938,016

14. Intangible assets

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

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	786,499	874,374
Additions	132,595	170,417
Transferred from projects in progress (note 12)	249,666	74,770
Amortization	(334,679)	(333,062)
Balance, end of the year	834,081	786,499

15. Other assets

This item represents the following:

	2022	2021
	U.S. $	U.S. $
Receivables, advances and temporary accounts*	5,214,541	5,307,916
Cash margin against credit cards	3,443,876	1,799,403
Prepaid expenses	1,248,959	1,473,325
Accrued revenues and commissions	713,420	1,113,464
Stationery and printings	259,816	321,943
Others	1,195,322	753,263
	12,075,934	10,769,314

* This item consists of account receivables against financing customers with a value of U.S. $ 4,288,409 and U.S. $ 4,893,186 as at December 31, 2022 and 2021 with advanced payments amounting to $ 889,990 and $ 363,846 as at December 31, 2022 and 2021, Respectively.

16. Banks and financial institutions' deposits

	2022	2021
	U.S. $	U.S. $
Motivational deposits maturing within more than three months *	25,000,000	25,000,000
Deposits maturing within three months	55,424,942	154,335,044
Deposits maturing within more than three months	-	3,779,517
	80,424,942	183,114,561

* 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

These deposits mature in the year 2023.

17. Customers' deposits

	2022	2021
	U.S. $	U.S. $
Current and on demand account	295,071,619	321,267,408

– 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. $ 1,236,609,601 and U.S. $ 1,290,482,717 as at December 31, 2022 and 2021, respectively.

- Governmental deposits amounted to U.S. $ 9,791,516 and U.S. $ 14,414,224 representing %0.79 and %1.12 of the total deposits as at December 31, 2022 and 2021, respectively.
- Quasi-governmental deposits amounted to U.S. $ 1,140,642 and U.S. $ 2,477,242 representing %0.09 and %0.19 of the total deposits as at December 31, 2022 and 2021, respectively.
- Dormant deposits amounted to U.S. $ 76,679,798 and U.S. $ 74,888,836 representing %6.20 and %5.80 of the total deposits as at December 31, 2022 and 2021, respectively.
- Non-profit bearing deposits amounted to U.S. $ 325,073,961 and U.S. $ 354,688,592 representing %26.29 and %27.48 of the total deposits as at December 31, 2022 and December 31, 2021, respectively.

18. Cash margins

This item represents cash margins against the following:

	2022	2021
	U.S. $	U.S. $
Cash margins against direct Islamic financing *	43,316,467	43,236,181
Cash margins against indirect Islamic financing	5,976,765	7,697,784
Others	17,827,249	17,211,205
	67,120,481	68,145,170

* Cash margins on direct Islamic financing include cash margins participating in profits amounting to U.S. $ 37,118,861 and U.S. $ 34,724,049 as at December 31, 2022 and December 31, 2021, 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, 2022				
Employees' end of service provision	9,872,188	2,057,192	(1,387,491)	10,541,889
Provision for legal cases	640,302	57,801	(28,722)	669,381
	10,512,490	2,114,993	(1,416,213)	11,211,270
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

20. Tax provisions

The movement on tax provisions during the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	4,144,039	2,043,961
Provision for the year	6,981,001	5,871,899
Payments	(4,902,706)	(3,771,821)
Balance, end of the year	6,222,334	4,144,039

Tax expense as disclosed in the Income Statement

	2022	2021
	U.S. $	U.S. $
Provison for the year	6,981,001	5,871,899
Deferred tax assets *	(733,751)	(380,997)
	6,247,250	5,490,902

* 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:

	2022	2021
	U.S. $	U.S. $
Bank's accounting profit before taxes	21,593,308	19,176,091
Profit subject to Value Added Tax (VAT)	26,218,724	19,943,627
VAT on income	3,616,376	2,750,845
Profit subject to income tax	16,240,046	11,617,078
Income tax	2,436,007	1,742,562
Total taxes (VAT and income tax)	6,052,383	4,493,407
Provision for the year	6,981,001	5,871,899
Effective tax rate	%32.33	%30.62

The Bank has reached a final settlement with the tax departments for the results of its operations until the year ended 2020. The Bank has not reached final settlements with the tax departments on its results for the years ended 2021. The Bank submitted its tax declaration on the results of its operations within due date, and the actual tax payments that may be paid depend on the final settlements with the tax department.

The income tax rates, and value added tax rates were %15 and %16, respectively for the years 2022 and 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:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	6,845,330	7,904,982
Additions	194,346	168,011
Disposals	(337,520)	(132,442)
Payments	(1,039,009)	(1,307,314)
Finance costs on lease liabilities	180,465	212,093
Balance, end of the year	5,843,612	6,845,330

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.

	2022	2021
	U.S. $	U.S. $
Short-term liabilities	1,236,343	1,448,278
Long-term liabilities	4,607,269	5,397,052
	1,236,343	6,845,330

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. $ 92,224 and U.S. $ 298,302, respectively for the year ended December 31, 2022.

22. Other liabilities

	2022	2021
	U.S. $	U.S. $
Palestine Monetary Authority Fund – Estidama program *	12,664,618	8,120,400
Bank's transfers and certified checks	3,633,595	4,209,598
Temporary accounts and intermediary accounts	1,450,381	1,427,180
Accrued expenses	1,833,510	599,420
Accrued cash dividends	1,201,324	1,048,546
Provision for employees' incentives	1,099,259	1,700,000
Clearing checks	904,104	1,569,466
Return on unrestricted investment accounts	891,017	1,204,703
Palestinian Deposit Insurance Corporation insurance provision	617,294	320,056
Board of Directors' bonuses	510,667	495,000
Provision for indirect Islamic financing ECL **	369,019	41,204
Provision for employees vacations	330,058	337,249
Social responsibility provision	320,714	294,432
Deferred tax liabilities ***	110,152	68,378
Earnings prohibited by Sharia'	17,173	3,802
Other credit balances	1,610,175	1,237,352
	27,563,060	22,676,786

* In accordance with the instructions of the Palestinian Monetary Authority No. (8/2021) with the aim of mitigating the economic effects of the Corona virus pandemic (Covid-19) on economic activities and projects, especially on small and medium enterprises, Istidama Program funds were granted from Palestine Monetary Authority (PMA) to Banks in Palestine. The PMA earns a return of 0.5%, while the bank can only earn a discounting return of a maximum 3% from creditors.

** Following is the movement of allowance for expected credit losses on indirect Islamic financing:

December 31, 2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As at January 1, 2022	37,630	3,574	-	41,204
Net re-measurement of ECL allowance during the period	85,894	241,921	-	327,815
Balance, end of the period	123,524	245,495	-	369,019

December 31, 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 ECL allowance during the year	(38,945)	1,305	-	(37,640)
Balance, end of the year	37,630	3,574	-	41,204

*** 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:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	68,378	68,378
Amortizations	41,774	-
Balance, end of the year	110,152	68,378

23. Unrestricted investment accounts

This item represents the following:

	2022	2021
	U.S. $	U.S. $
Saving deposits	641,912,366	641,350,747
Time deposits	232,505,135	259,719,392
	874,417,501	901,070,139

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

This reserve represents 15% of net profit in accordance with PMA's instruction number (6/2015), the Bank seized transfers to the reserve according to PMA instructions No (1/2018) which set the percentage at 0.57% of risk-weighted assets. The instructions allow Banks to utilize the pro-cyclicity reserve balance for the purpose of this buffer. According to PMA instructions No (13/2019) the percentage is set to be 0.66% of risk-weighted assets for the year 2019. During 2022, PMA issued Instructions No. (8/2022) regarding the anti-cyclical capital buffer, so that the percentage is 0.5% of risk-weighted assets, and the commitment to form the buffer within a maximum period of March 31, 2023, and disclosure within the interim and annual financial statements as of June 2023. The Bank is also prohibited from disposing of the amounts allocated in the periodic fluctuations reserve item, except for capitalization, after obtaining the prior written PMA's approval.

25. Investment and financing revenues

	2022	2021
	U.S. $	U.S. $
Murabaha financing revenues	51,077,128	47,260,884
Istisna'a financing revenues	2,514,643	2,346,709
Tawaroq financing revenues	1,386,516	2,465,144
Musawama financing revenues	1,123,899	1,374,165
Return on investment in Islamic Bank	741,365	912,015
Ijara muntahia bittamleek revenues	450,994	583,649
	57,294,545	54,942,566

26. Return on unrestricted investment accounts

	2022	2021
	U.S. $	U.S. $
Time deposits	5,817,526	6,278,631
Saving deposits	588,082	1,265,273
Profits sharing cash margins	112,929	91,558
	6,518,537	7,635,462

27. Net Commissions

	2022	2021
	U.S. $	U.S. $
Commissions received		
Accounts' management	3,964,487	3,651,453
Issuing cards	3,741,867	3,968,165
Returned and post-dated checks	1,876,119	1,558,227
Indirect financing	815,454	1,003,546
Cash deposits	509,944	700,184
Transfers	291,072	250,704
Other banking services	904,037	688,309
	12,102,980	11,820,588
Commissions paid	(2,367,969)	(1,891,428)
	9,735,011	9,929,160

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:

	2022	2021
	U.S. $	U.S. $
Financial assets at fair value through profit or loss	135,402	101,911
Financial assets at fair value through other comprehensive items	366,714	276,009
	502,116	377,920

29. Other revenues

This item represents revenues from the following:

	2022	2021
	U.S. $	U.S. $
Recovery of suspended profits	438,858	1,136,975
Safe boxes rental revenue	130,043	107,812
Gain on disposal of lease contracts	9,707	29,025
Gain on sale of investment properties, net	8,958	61,268
Others	78,247	36,793
	665,813	1,371,873

30. Personnel expenses

This item represents the following:

	2022	2021
	U.S. $	U.S. $
Salaries and related benefits	13,448,824	14,161,496
Employees' end of service	2,057,192	1,830,885
VAT on salaries	2,078,482	1,940,034
Medical insurance	977,342	812,676
Bank's contribution to the provident fund *	806,721	947,734
Clothing allowances	229,770	190,160
Travel and accommodation	472,999	125,903
Car Rentals	87,778	296,702
Training expenses	80,000	75,172
Others	244,250	121,742
	20,483,358	20,502,504

* 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

	2022	2021
	U.S. $	U.S. $
Palestine Deposit Insurance Corporation Fees *	2,432,831	1,200,672
Maintenance and cleaning	2,301,947	1,991,608
Fees, licenses and subscriptions	2,256,761	1,847,738
Telephone, fax and postage	1,868,194	1,835,312
Advertising and marketing	1,180,923	1,006,749
Professional and consultancy fees	883,365	466,199
Utilities	594,366	639,202
Archiving expenses	540,040	178,060
Board of Directors' bonuses and expenses	529,588	592,206
Social responsibility **	500,000	500,000
Stationery and printings	444,107	242,171
Guarding	405,526	398,061
Insurance	379,640	279,915
Reef project expenses	76,724	370,456
Hospitality	117,090	86,189
Rents	4,446	1,600
Operational event losses ***	-	1,134,833
Disposal of property, plant and equipment	-	86,525
Sundry expenses	929,050	225,322
	15,444,598	13,082,818

* On October 27, 2020, PDIC issued a circular No. (2/2020) regarding reducing the minimum subscription fee to (0.1%-0.8%), and as at October 1, 2020 the subscription fee percentage will be calculated at 0.1% of the average total deposit instead of 0.2% of the average total deposit. On November 9, 2021, the Corporation issued Circular No. (2/2021) regarding raising the fixed subscription fee rate to 0.2% of the average total subject deposits as at January 1, 2022.

** The Bank provides donations in different social, religious and other areas according to the Bank's policy for community support. Donations and sponsorships represent %3.26 and %3.65 of net income as at December 31, 2022 and 2021, respectively.

*** At the beginning of the year 2022, the Bank's management discovered fraudulent action committed by one of the Bank's employees relevant 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 under operational event losses in the income statement for the year 2021.

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.

32. Provision for expected credit losses, net

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

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at Palestinian Monetary Authority	32,218	-	-	32,218
Balances at Banks and financial institutions	343,731	-	-	343,731
Direct Islamic financing	(1,323,999)	308,570	4,484,391	3,468,962
Financial assets at amortized cost	169,335	-	-	169,335
Financial assets at fair value through other comprehensive income	6,243	-	-	6,243
Indirect Islamic financing	85,894	241,921	-	327,815
As at December 31, 2022	(686,578)	550,491	4,484,391	4,348,304

- The recovery during the year amounted to U.S. $ 3,368,604.

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 for the year amounted to U.S. $ 2,372,614.

33. Palestine Monetary Authority fines

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

34. Cash and stock dividends

On April 19, 2022, the Bank's General Assembly approved the distribution of stock dividends at a rate of 5.88% of the share par value for a total amount of U.S. $ 5,000,000 , in addition to the distribution of cash dividends at a rate of 5.88% of the share par value for a total amount of U.S. $ 5,000,000 for the Bank's 2021 business results.

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.

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 2022 and 2021 amounted to U.S. $ %5.61 and U.S. $ %5.69, respectively.

36. Commitments and contingencies

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

	2022	2021
	U.S. $	U.S. $
Unutilized limits of direct Islamic financing	42,505,270	25,492,145
Letters of guarantee	52,600,985	53,919,379
Letters of credits	1,818,672	4,604,799
	96,924,927	84,016,323

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:

	2022	2021
	U.S. $	U.S. $
Cash and balances with PMA	349,110,606	441,539,584
Balances at banks and financial institutions	145,295,591	207,523,111
Less: Cash margins	(498,819)	(1,520,164)
Less: Balances at banks maturing within more three months	(37,208,744)	(25,269,832)
Less: statutory cash reserve and restricted balances at PMA	(218,686,869)	(211,085,985)
Banks and financial institutions' deposits maturing within three months	(55,424,942)	(154,335,044)
Restricted balances at PMA	(147,000)	(147,000)
	182,439,823	256,704,670

38. Basic and diluted earnings per share

This item represents the following:

	2022	2021
	U.S. $	
Profit for the year	15,346,058	13,685,189
	Share	
Weighted average number of subscribed shares	90,000,000	90,000,000
	U.S. $	
Basic and diluted earnings per share from profit of the year	0.17	0.15

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

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

	2022			2021		
	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	348,735,843	-	348,735,843	441,197,039	-	441,197,039
Balances at banks and financial institutions	143,218,877	-	143,218,877	205,790,128	-	205,790,128
Direct Islamic financing	898,219,397	-	898,219,397	890,363,440	-	890,363,440
Financial assets at fair value through profit and loss	-	1,855,007	1,855,007	-	1,905,783	1,905,783
Financial assets at fair value through other comprehensive income	-	26,009,182	26,009,182	-	19,722,011	19,722,011
Financial assets at amortized cost	-	21,947,148	21,947,148	-	19,338,116	19,338,116
Investment in associates	-	11,583,682	11,583,682	-	11,578,192	11,578,192
Investment properties	-	9,906,120	9,906,120	-	13,617,990	13,617,990
Property, plant and equipment	-	26,309,690	26,309,690	-	25,998,655	25,998,655
Projects in progress	-	3,705,537	3,705,537	-	2,888,322	2,888,322
Right-of-use assets	-	5,670,183	5,670,183	-	6,938,016	6,938,016
Deferred tax assets	-	6,265,249	6,265,249	-	5,531,498	5,531,498
Intangible assets	-	834,081	834,081	-	786,499	786,499
Other assets	-	12,075,934	12,075,934	-	10,769,314	10,769,314
	1,390,174,117	126,161,813	1,516,335,930	1,537,350,607	119,074,396	1,656,425,003

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 represent deposits and direct and indirect Islamic financing as follows:

	Nature of relationship	2022 U.S. $	2021 U.S. $
Statement of financial position items:			
Direct Islamic financing	Associate	237,496	585,148
	Executive Management	427,076	527,413
	Chairman and Board of Directors Members	3,813,719	4,411,530
	Others	6,299,172	6,234,425
Customers deposits	Associate	12,015,440	8,637,291
	Executive Management	686,286	873,366
	Chairman and Board of Directors Members	451,974	249,184
	Others	20,112,432	29,777,160
SWAPs, net	Major shareholder	634,957	143,768
Balances at banks and financial institutions	Major shareholder	8,349,286	8,688,238
Cash margins	Associate	12,660	13,064
	Others	29,685	37,754

		2022 U.S. $	2021 U.S. $
Income statement items:			
Profit received	Associate	26,900	55,360
	Executive Management	11,226	14,600
	Others	351,757	748,083
Profit paid	Associate	62	124
	Chairman and Board of Directors Members	78	590
	Others	4,905	7,128

		2022 U.S. $	2021 U.S. $
Off statement of financial position items:			
Indirect Islamic financing	Associate	157,297	207,772
	Others	262,921	357,766

- Direct Islamic financing granted to related parties as at December 31, 2022 and 2021 represent %1.20 and %1.32 of the net Islamic financing, respectively.
- Direct Islamic financing granted to related parties as at December 31, 2022 and 2021 represent %7.11 and %8.35 of the regulatory Bank’s capital, respectively.
- Returns on Islamic financing granted to related parties ranges between %1.35 to %12.67.

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

	2022	2021
	U.S. $	U.S. $
Board of Directors' bonuses and expenses	529,588	592,206
Executive management salaries and related benefits	653,636	732,826
Executive management end of service benefits	61,603	69,583

The Board of Director's bonuses for 2022 and 2021 are as follows:

	2022	2021
	U.S. $	U.S. $
National Islamic Investment Company represented by Mr. Maher Al-Masri	58,688	60,273
National Islamic Investment Company represented by Mr. Omar Al-Masri	35,452	37,323
Birzeit Pharmaceutical Company represented by Mr. Talal Nassereldeen	35,452	37,323
Mr. Salah Al-Daghmeh- Independent Member	35,452	37,323
Mr. Abdulhameed Fayez Al-Obweh- Independent Member	35,452	37,323
Mr. Majid Al-Helu- Independent Member	35,452	37,323
National Islamic Investment Company represented by Mr.Alaa Saleem Mousa Sisalem	35,452	6,221
Institution of Management and Development of Orphans Money represented by Mr. Rafiq Shaker Al-Natsheh	29,544	24,882
Mr. Suhail Sultan- Independent Member	29,544	-
Mr. Ashraf Yaseen - Independent Member	29,544	-
Rozan Specialized Medical Center for Infertility and IVF represented by Mr. Mohammad Abul Khaizaran	29,544	-
Mr. Anees Al-Hajjeh- Independent Member	5,909	37,323
Mr. Ali Zaidan Abu Zuhri- Independent Member	5,909	37,323
Rozan Specialized Medical Center for Infertility and IVF represented by Mr. Salem Abul Khaizaran	5,909	37,323
	407,303	389,960

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, 2022	Palestine	Jordan	Others	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash and balances with Palestine Monetary Authority	348,735,843	-	-	348,735,843
Balances at banks and financial institutions	65,348,308	56,535,116	21,335,453	143,218,877
Direct Islamic financing	898,219,397	-	-	898,219,397
Financial assets at fair value through profit or loss	1,855,007	-	-	1,855,007
Financial assets at fair value through other comprehensive items	6,683,802	67,330	19,258,050	26,009,182
Financial assets at amortized cost	-	18,136,339	3,810,809	21,947,148
Investment in associates	11,583,682	-	-	11,583,682
Investment properties	9,906,120	-	-	9,906,120
Property, plant and equipment	26,309,690	-	-	26,309,690
Projects in progress	3,705,537	-	-	3,705,537
Right-of-use assets	5,670,183	-	-	5,670,183
Deferred tax assets	6,265,249	-	-	6,265,249
Intangible assets	834,081	-	-	834,081
Other assets	12,075,934	-	-	12,075,934
	1,397,192,833	74,738,785	44,404,312	1,516,335,930
Off statement of financial position items:				
Unutilized limits of direct Islamic financing	42,505,270	-	-	42,505,270
Letters of guarantee	52,600,985	-	-	52,600,985
Letters of credit	1,818,672	-	-	1,818,672
	96,924,927	-	-	96,924,927

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

	2022			2021		
	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	468,648,989	1,120,362,045	46,429,642	474,576,488	1,163,891,169	30,238,271
Corporates and institutions	429,570,408	116,247,556	50,495,285	415,786,952	126,591,548	53,778,052
Treasury	541,766,057	80,424,942	-	687,953,077	183,114,561	-
Others	76,350,476	50,840,276	-	78,108,486	44,178,645	-
Total	1,516,335,930	1,367,874,819	96,924,927	1,656,425,003	1,517,775,923	84,016,323

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 2022 and 2021.

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2022:

			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 at fair value:					
Financial assets at fair value through profit or loss (note 6):					
Quoted	December 31, 2022	1,855,007	1,855,007	-	-
Financial assets at fair value through other comprhensive income (note 7):					
Quoted	December 31, 2022	25,782,257	25,782,257	-	-
Unquoted	December 31, 2022	226,925	-	-	226,925
Investment properties (note10):	December 31, 2022	9,906,120	-	-	9,906,120
Financial assets with disclosed fair value:					
Financial assets at amortized cost (note 8)					
Quoted	December 31, 2022	3,639,312	3,639,312	-	-
Unquoted		18,136,339	-	-	18,136,339

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 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 with disclosed fair value:					
Financial assets at amortized cost (note 8):					
Quoted	December 31, 2021	3,926,937	3,926,937	-	-
		15,483,469	-	-	15,483,469

– 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
2022	%	U.S. $
Fair value per square meter		
Fair value per square meter	5+	495,306
	5-	(495,306)
2022		
Fair value per square meter	5+	680,900
Fair value per square meter	5-	(680,900)

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, 2022 and 2021:

	Carrying amount		Fair value	
	2022	2021	2022	2021
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash and balances with Palestine Monetary Authority	348,735,843	441,197,039	348,735,843	441,197,039
Balances at banks and financial institutions	143,218,877	205,790,128	143,218,877	205,790,128
Direct Islamic financing	898,219,397	890,363,440	898,219,397	890,363,440
Financial assets at fair value through profit or loss	1,855,007	1,905,783	1,855,007	1,905,783
Financial assets at fair value through other comprehensive income	26,009,182	19,722,011	26,009,182	19,722,011
Financial assets at amortized cost	21,947,148	19,338,116	21,775,651	19,410,406
Other financial assets	9,677,169	8,610,200	9,677,169	8,610,200
	1,449,662,623	1,586,926,717	1,449,491,126	1,586,999,007
Financial liabilities				
Banks and financial institutions deposits	80,424,942	183,114,561	80,424,942	183,114,561
Customers' deposits	295,071,619	321,267,408	295,071,619	321,267,408
Cash margins	67,120,481	68,145,170	67,120,481	68,145,170
Lease Liabilities	5,843,612	6,845,330	5,843,612	6,845,330
Other financial liabilities	26,863,983	22,298,333	26,863,983	22,298,333
	475,324,637	601,670,802	475,324,637	601,670,802
Unrestricted investment accounts	874,417,501	901,070,139	874,417,501	901,070,139

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 and lease liabilities were disclosed through discounting forecasted cash flows using the discount rate prevailing at the market.
- 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, 2022 and December 31, 2021.

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):

	2022	2021
	U.S. $	U.S. $
Statement of financial position items:		
Balances with Palestine Monetary Authority	218,459,106	220,340,369
Balances at banks and financial institutions	143,218,877	205,790,128
Direct Islamic financing	898,219,397	890,363,440
Financial assets at amortized cost	21,947,148	19,338,116
Debt instruments through other comprehensive income	19,258,050	14,333,591
Other assets	9,677,169	8,610,200
Total statement of financial position items	1,310,779,747	1,358,775,844
Off statement of financial position items:		
Unutilized limits of Islamic financing	42,343,441	25,479,643
Letters of guarantee	52,400,719	53,892,935
Letters of credit	1,811,748	4,602,541
Total off statement of financial position items	96,555,908	83,975,119

B. Concentration of risk exposures according to FAS (30) and IFRS (9) as at December 31, 2022 and 2021:

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances with PMA	218,833,869	-	-	218,833,869
Balances at banks and financial institutions	143,605,688	-	1,689,903	145,295,591
Direct Islamic financing:				
Public sector	131,567,604	-	-	131,567,604
Manufacturing and Agricultural	21,097,361	11,060,004	1,770,746	33,928,111
Service sector	1,286,958	196,390	70,556	1,553,904
Trade	160,587,800	34,209,814	25,628,667	220,426,281
Real estate and constructions	113,949,343	25,479,420	10,805,916	150,234,679
Lands	79,817,753	34,241,150		114,058,903
Consumers' Financing	189,020,596	31,057,542	5,513,649	225,591,787
Others	34,050,392	14,801,935	4,979,787	53,832,114
Financial assets at amortized cost	22,149,529	-	-	22,149,529
Debt instruments through other comprehensive income	19,258,050	-	-	19,258,050
Other assets	9,677,169	-	-	9,677,169
Total	1,144,902,112	151,046,255	50,459,224	1,346,407,591

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	8,610,200	-	-	8,610,200
Total	1,222,925,455	117,104,945	49,727,071	1,389,757,471

C. Concentration of risk exposures according to FAS (30) and IFRS (9) as at December 31, 2022 and 2021:

2022	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	1,025,238,012	151,046,255	48,769,321	1,225,053,588
Jordan	75,216,541	-	-	75,216,541
Others	44,447,559	-	1,689,903	46,137,462
Total	1,144,902,112	151,046,255	50,459,224	1,346,407,591

2021	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	1,139,774,284	117,104,945	48,037,168	1,304,916,397
Jordan	44,128,252	-	-	44,128,252
Others	39,022,919	-	1,689,903	40,712,822
Total	1,222,925,455	117,104,945	49,727,071	1,389,757,471

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

December 31, 2022	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	218,833,869	-	-	-	-	-	-	218,833,869	374,763
Balances at banks and financial institutions	145,295,591	-	-	-	-	-	-	145,295,591	2,076,714
Direct Islamic financing:									
Retails	501,622,975	4,654,383	57,550	128,167,045	20,000	101,944,585	234,843,563	266,779,412	15,506,239
Small and medium-sized institution	83,962,516	9,342,754	316,199	31,485,120	-	4,436,333	45,580,406	38,382,110	761,464
Corporates	214,040,288	14,559,401	3,581,764	91,993,364	-	11,808,059	121,942,588	92,097,700	13,526,759
Government and public sector	131,567,604	-	-	-	-	-	-	131,567,604	995,325
Financial assets at amortized cost	22,149,529	-	-	-	-	-	-	22,149,529	202,381
Debt instruments through other comprehensive income	19,258,050	-	-	-	-	-	-	19,258,050	6,243
Other financial assets	9,677,169	-	-	-	-	-	-	9,677,169	-
	1,346,407,591	28,556,538	3,955,513	251,645,529	20,000	118,188,977	402,366,557	944,041,034	33,449,888
Credit exposures relating to items off statement of financial position:	96,924,927	5,976,765	-	-	-	-	5,976,765	90,948,162	369,019
	96,924,927	5,976,765	-	-	-	-	5,976,765	90,948,162	369,019

December 31, 2021	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	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 the statement of comprehensive income	14,333,591	-	-	-	-	-	-	14,333,591	586
Other financial assets	8,610,200	-	-	-	-	-	-	8,610,200	-
	1,389,757,471	29,714,319	3,203,710	214,925,239	20,000	95,973,286	343,836,554	1,045,920,917	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

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

December 31, 2022	Total Credit risk exposure	Fair value of collaterals: 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	17,159,680	797,919	10,175,741	906,357	11,880,017	5,279,663	7,447,872
Corporates	10,631,832	231,660	9,728,535	57,857	10,018,052	613,780	3,402,169
Small and medium-sized institution	20,977,809	437,302	7,651,334	989,772	9,078,408	11,899,401	7,857,960
Total	48,769,321	1,466,881	27,555,610	1,953,986	30,976,477	17,792,844	18,708,001

December 31, 2021	Total Credit risk exposure	Fair value of collaterals: 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

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, 2022:

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 (%)
		(%)	2022	2023	2024	2025	2026	2027
Gross domestic product	Base scenario	40	1.61	1.16	0.12	(0.18)	(0.13)	(0.08)
	Best scenario	30	9.96	7.78	6.74	6.44	6.49	6.54
	Worst scenario	30	(4.27)	(5.46)	(6.5)	(6.8)	(6.75)	(6.7)
Unemployment rates								
	Base scenario	40	5.69	3.8	2.49	2.17	2.29	1.95
	Best scenario	30	7.58	4.44	3.13	2.81	2.93	2.59
	Worst scenario	30	4.27	3.15	1.84	1.52	1.64	1.3

The following are the impact 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

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	2022	2021
	U.S. $	U.S. $
Private sector:		
AAA to A-	7,808,509	7,879,998
BBB+ to B-	15,263,386	10,309,946
Unrated	18,335,684	15,514,809
Total	41,407,579	33,704,753

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:

	2022		
	Increase in index	Effect on income statement	Effect on equity
Market	%	U.S. $	U.S. $
Palestine Securities Exchange	10	185,501	645,688
Foreign financial markets	10	-	6,733
Unquoted	10	-	22,693

	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

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:

	2022		2021	
	Increase in currency	Effect on income statement	Increase in currency	Effect on income statement
Currency	(%)	U.S. $	(%)	U.S. $
ILS	10	(2,180)	10	191,822
Other currencies	10	19,116	10	11,609

Foreign currencies position of the Bank is as follows:

	Equivalent to U.S. $			
December 31, 2022	JOD	ILS	Other currencies	Total
Assets				
Cash and balances with PMA	54,790,498	226,218,172	2,441,709	283,450,379
Balances at banks and financial institutions	79,180,826	8,546,629	2,429,530	90,156,985
Direct Islamic financing	152,524,907	371,931,131	14,887,589	539,343,627
financial assets at fair value through profit or loss	1,855,007	-	-	1,855,007
financial assets at fair value through other comprehensive income	5,091,307	-	-	5,091,307
Financial assets at amortized cost	8,462,623	-	-	8,462,623
Investment properties	4,068,750	-	-	4,068,750
Projects in progress	24,327	675,289	-	699,616
Other assets	706,002	11,516,573	40,030	12,262,605
Total assets	306,704,247	618,887,794	19,798,858	945,390,899
Liabilities				
Banks' and financial institutions' deposits	7,052,186	42,190,817	6,181,939	55,424,942
Customers' deposits	52,698,019	191,932,474	2,908,998	247,539,491
Cash margin	9,834,307	24,354,494	3,653,965	37,842,766
Lease liabilities	2,054,725	3,921	-	2,058,646
Other liabilities	3,142,820	1,205,009	1,711,538	6,059,367
Total liabilities	74,782,057	259,686,715	14,456,440	348,925,212
Unrestricted investment accounts	228,352,323	359,222,877	5,151,256	592,726,456
Total liabilities and unrestricted investment account	303,134,380	618,909,592	19,607,696	941,651,668
Statement of financial position concentration	3,569,867	(21,798)	191,162	3,739,231
Commitments and contingencies	5,754,099	27,225,081	11,498,461	44,477,641

	Equivalent to U.S. $			
December 31, 2021	JOD	ILS	Other currencies	Total
Total assets	319,893,500	697,236,485	17,091,000	1,034,220,985
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
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

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, 2022 and 2021:

December 31, 2022	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	348,588,843	-	-	-	-	147,000	348,735,843
Balances at banks and financial institutions	106,010,134	-	7,052,186	9,000,000	21,156,557	-	143,218,877
Direct Islamic financing	140,478,813	118,901,927	91,924,375	152,083,496	394,830,786	-	898,219,397
Financial assets at fair value through profit or loss	-	-	-	-	-	1,855,007	1,855,007
Financial assets at fair value through other comprehensive income	-	2,003,260	4,971,930		12,282,860	6,751,132	26,009,182
Financial assets at amortized cost	-	2,820,875	2,820,874	-	16,305,399	-	21,947,148
Investment in associates	-	-	-	-	-	11,583,682	11,583,682
Investment properties	-	-	-	-	-	9,906,120	9,906,120
Property, plant and equipment	-	-	-	-	-	26,309,690	26,309,690
Projects in progress	-	-	-	-	-	3,705,537	3,705,537
Right-of-use assets	-	-	-	-	-	5,670,183	5,670,183
Deferred tax assets	-	-	-	-	6,265,249	-	6,265,249
Intangible assets	-	-	-	-	-	834,081	834,081
Other assets	8,883,035	796,724	745,837		1,650,338	-	12,075,934
Total assets	603,960,825	124,522,786	107,515,202	161,083,496	452,491,189	66,762,432	1,516,335,930
Liabilities, Unrestricted Investments Accounts and Equity							
Banks and financial institutions' deposits	55,424,942	-	-	-	25,000,000	-	80,424,942
Customers' deposits	295,071,619	-	-	-	-	-	295,071,619
Cash margin	2,017,975	5,970,547	4,547,517	11,182,825	43,401,617	-	67,120,481
Sundry provisions	-		-	-	11,211,270	-	11,211,270
Tax provisions		6,222,334	-	-	-	-	6,222,334
Lease liabilities	121,743	243,484	365,226	730,451	4,382,708	-	5,843,612
Other liabilities	27,563,060	-	-	-	-	-	27,563,060
Total liabilities	380,199,339	12,436,365	4,912,743	11,913,276	83,995,595	-	493,457,318
Unrestricted investment accounts	656,836,427	44,479,791	72,386,093	69,239,897	31,475,293	-	874,417,501
Equity							
Paid-in share capital	-	-	-	-	-	90,000,000	90,000,000
Additional paid- in capital	-	-	-	-	-	3,200,000	3,200,000
Statutory reserve	-	-	-	-	-	13,141,137	13,141,137
General banking risk reserve	-	-	-	-	-	4,384,678	4,384,678
Pro-cyclicality reserve	-	-	-	-	-	11,023,917	11,023,917
Investment properties reserve	-	-	-	-	-	301,798	301,798
Cumulative change in fair value	-	-	-	-	-	227,436	227,436
Retained earnings	-	-	-	-	-	26,182,145	26,182,145
Net equity	-	-	-	-	-	148,461,111	148,461,111
Total Liabilities, Unrestricted Investment Accounts and Equity	1,037,035,766	56,916,156	77,298,836	81,153,173	115,470,888	148,461,111	1,516,335,930
Maturity gap	(433,074,941)	67,606,630	30,216,366	79,930,323	337,020,301	(81,698,679)	-
Cumulative maturity gap	(433,074,941)	(365,468,311)	(335,251,945)	(255,321,622)	81,698,679	-	-

December 31, 2021	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	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	-	-

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, 2022:

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	376,818,820	362,793,441
Retail deposits including deposits of small enterprises:		
A-Stable deposits	563,533,060	28,176,653
B -Less stable deposits	413,532,834	24,691,512
Deposits and unsecured forms of financing for legal persons other than retail customers and small-scale enterprises:		
A-Operating Deposits	43,482,464	10,870,616
B-Non-operating deposits	19,166,328	7,666,531
Guaranteed financing and deposits	1,039,714,686	71,405,312
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period		
Any other external contractual cash flows	329,921,576	372,426,846
Total cash outflows	1,369,636,262	443,832,158
Secured granting		
Other inflows based on the counterparty	206,985,508	152,849,737
Total cash inflows	206,985,508	152,849,737
Net cash outflow - after adjustments		290,982,421
Total high-quality assets - after adjustments		362,793,441
Net cash outflow - after adjustments		290,982,421
Liquidity Coverage Ratio (%)		125%

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

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, 2022:

	2022
	U.S. $
Regulatory capital	151,498,422
Retail deposits and small institutions (stable)	541,676,427
Retail deposits and small institutions (less stable)	531,424,269
Secured and unsecured financing (deposits)	29,087,618
Total stable funding available	1,253,686,736
High quality liquid assets of the second level / category (A) not mortgaged	1,077,817
High quality liquid assets of the second level / category (B) not mortgaged	1,403,000
High quality liquid and mortgaged assets	27,712,471
Islamic financing	669,278,481
Unquoted investments other than the mentioned above	29,238,082
All other assets	26,027,850
credit and liquidity financing not subject to cancellation and subject to conditional cancellation	2,125,264
Other potential future financing commitments	2,720,983
Total required stable financing	759,583,948
Net stable financing ratio	165%

Net stable financing ratio for the year ended December 31, 2021:

Item	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
Total required stable financing	730,085,120
Net stable financing ratio	%174

Leverage ratio

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

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

Item	2022
	U.S. $
Total Exposure Scale	1,615,445,056
Regulatory amendments related to investments in banks and financial institutions	-
Adjustments related to derivative exposures	-
Amendments related to securities financing operations	-
Adjustments related to items off statement of financial position	44,454,355
other adjustments/exposures	834,082
The total exposure scale for the purpose of calculating the leverage ratio	1,570,156,219
First tranche of capital net capital	137,242,351
Leverage Ratio as at December 31, 2022	%8.74

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 2022	Total 2021
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Gross revenues	47,939,841	20,716,319	6,945,496	665,813	76,267,469	74,080,123
Net re-measurement of expected credit losses	(2,625,318)	(1,171,459)	(551,527)	-	(4,348,304)	(5,921,086)
Segment results	45,314,523	19,544,860	6,393,969	665,813	71,919,165	68,159,037
Unallocated expenses					(50,325,857)	(48,982,946)
Profit before taxes					21,593,308	19,176,091
Taxes expense					(6,247,250)	(5,490,902)
Profit for the year					15,346,058	13,685,189
Other information						
Depreciation and amortization					4,383,129	4,344,173
Capital expenditures					4,424,594	2,092,439
					2022	2021
					U.S. $	U.S. $
Total segment assets	468,648,989	429,570,408	541,766,057	76,350,476	1,516,335,930	1,656,425,003
Total segment liabilities and unrestricted investment accounts	1,120,362,045	116,247,556	80,424,942	50,840,276	1,367,874,819	1,517,775,923

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	
	2022	2021	2022	2021	2022	2021
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total revenues	74,485,576	72,579,407	1,781,893	1,500,716	76,267,469	74,080,123
Capital expenditures	4,424,594	2,092,439	-	-	4,424,594	2,092,439

	Local		Foreign		Total	
	2022	2021	2022	2021	2022	2021
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Total assets	1,397,193,692	1,587,767,437	119,142,238	68,657,566	1,516,335,930	1,656,425,003

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 during the current and previous year.

The capital adequacy ratio is computed in accordance with PMA regulations derived from Basel Committee regulations. The following is the capital adequacy ratio for the year 2022 and 2021:

	2022			2021		
	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	151,498,422	9.99%	14.43%	140,805,035	8.50%	14.25%
Basic capital	138,242,351	9.12%	13.17%	128,477,903	7.76%	13 %

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

	December 31, 2022
	U.S. $
Net of common shares (CET 1)	90,000,000
The first bracket of capital	138,242,351
The second bracket of capital	13,256,071
Capital base	151,498,422
Credit risk	927,254,407
Market risk	10,202,207
Operating risk	112,164,355
Total risk weighted assets	1,049,620,969
Percentage of common stocks (CET 1) to risk weighted assets	%8.57
Percentage of the first bracket of capital to risk weighted assets	%13.17
Percentage of the second bracket of capital to risk weighted assets	%1.26
Percentage of the first bracket to assets	%9.12
Percentage of regulatory capital to assets	%9.99
Capital adequacy ratio	%14.43

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 (86) and (75) in the amount of U.S. $ 12,744,562 and U.S. $ 15,602,224 as at December 31, 2022 and 2021, 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.