المؤسسة الفلسطينية لضمان الودائع

PALESTINE DEPOSIT INSURANCE CORPORATION

Annual Report
2020

المؤسسة الفلسطينية لضمان الودائع

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Glossary

Member Banks

All Islamic and conventional Palestinian banks and branches of foreign banks operating in Palestine, licensed by Palestine Monetary Authority (PMA)

Board:

The Palestine Deposit Insurance Corporation Board of Directors.

Deposits Subject to the Provisions of the Law

All Types of deposits held by member banks in all currencies except:

- Deposits of the government and its agencies, Deposits of the PMA, and Deposits between members.
- Cash collaterals up to the amount of guaranteed facilities.
- Deposits of related persons, in accordance with the provisions of the Banking Law currently in force.
- Deposits of the auditors of a member and/or members of its Sharia Supervisory Board.
- Restricted investment account deposits, as determined by the Board.
- Deposits of insurance, reinsurance companies and financial brokerage firms licensed by the Palestinian Capital Market Authority, and deposits of specialized lending companies licensed by the Palestine Monetary Authority.

Deposits subject to prompt reimbursement

Total deposits subject to the provisions of the law, not exceeding the coverage limit of 20,000 USD (twenty thousand US dollars) or its equivalent in other currencies per depositor per bank.

Fully insured deposits

Deposits subject to full reimbursement according to the provisions of the law, equal to or less than the coverage limit of 20,000 USD (twenty thousand US dollars) or its equivalent in other currencies

Partially insured deposits

Deposits subject to the provisions of the Law that exceed the coverage limit of 20,000 USD (twenty thousand US dollars) or its equivalent in other currencies

Coverage limit

The maximum amount of reimbursement per depositor to each member bank, upon liquidation, equal to 20,000 USD (twenty thousand US dollars) or its equivalent in other currencies.

International Association of Deposit Insurers (IADI)

IADI is a non-profit organization, with an independent legal entity, its headquartered at the Bank for International Settlements in Basel, Switzerland. The organization's objectives are to contribute to the stability of financial systems by enhancing international cooperation and exchanging experiences in the field of deposit insurance. IADI currently has 85 members, 8 associates and 16 partners.

Core Principles for Effective Deposit Insurance Systems

A set of 16 core principles published by the International Association of Deposit Insurers (IADI) and the Basel Committee on Banking Supervision (BCBS), used as a framework to support effective deposit insurance system practices.

Establishment of PDIC

The Palestinian Deposit Insurance Corporation (PDIC), which was established under the provisions of Presidential Decree No. (7) of 2013, on May 29, 2013 enjoys the status of a legal entity with legal capacity as well as financial and administrative independence.

Vision

To reach a leading professional position in regional and international insurance deposits.

Mission

To reinforce the stability of the Palestinian banking system, encourage savings, and provide protection for depositors' savings in member banks.

Core Values

- **Credibility and transparency:** Adhering to the highest ethical and professional standards when carrying out duties effectively and efficiently.
- **Loyalty:** Promoting the values of responsibility, loyalty and dedication towards PDIC and stakeholders.
- **Professionalism and excellence:** Applying the best international standards, practices, skills, knowledge and expertise.
- **Teamwork:** Working collaboratively in good spirits and maintaining effective communication lines with parties involved.
- **Continuous training:** providing continuous training opportunities for the staff to advance technically and professionally, and keep abreast of international best practices.

Objectives

- To enhance public confidence in the Palestinian banking system and contribute to maintain its stability.
- To increase public awareness of the deposit insurance system in Palestine.
- To build up an appropriate level of reserves to ensure providing protection to depositors of member banks.
- To promote risk management culture in the banking sector.
- To conduct reimbursement and liquidation processes efficiently and effectively
- To build an international network with deposit insurance institutions all over the world to strengthen our relations and exchange experiences.

Board of Directors

Chairman of the Board

Mr. Azzam Shawwa

Mr. Azzam Shawwa was appointed by President Mahmoud Abbas by a Presidential Decree on November 20, 2015, as Governor and Chairman of the Palestine Monetary Authority's board of directors.

Mr. Shawwa is a prominent, accomplished Palestinian banker and public sector figure. In 2003, he was appointed as Minister of Energy in the Palestinian National Authority, where he spent more than three years in active and outstanding public service. Mr. Shawwa revealed strong proclivity for leadership early in his formative years, through the presidency of the General Union of Palestinian Students at the U.S. university where he conducted his undergraduate studies.

Mr. Azzam Shawwa was born in Kuwait in 1963, and later during that year, he moved with his family to Gaza city, Palestine. In 1988, he graduated from LeMoyne-Owen College in Memphis, Tennessee, where he received his Bachelor degree in Mathematics with honors.

Mr. Shawwa's banking career has been marked by a number of pioneering, audacious initiatives and reforms. In 1989, he joined Bank of Palestine as foreign Relations Manager; As such, he successfully expanded the bank's presence, role and network in Palestine and abroad.

In 1994, Mr. Shawwa assumed the position of Regional Head of the Gaza branches of the Arab Bank (Palestine), the largest banking group in Palestine, and a member of the Arab Banks' vast regional and international banking network.

In 2007, Mr. Shawwa's banking career achieved a new high, taking the position of General Manager at Al-Quds Bank. There, Mr. Shawwa started a new start for the bank, embarking on a wide-ranging restructuring of its most critical departments; launching several new or enhanced products and services, and enhancing the bank's role and overall business image.

Throughout 2012, Mr. Shawwa chaired the Association of Banks in Palestine, which he substantially activated and enabled to render enhanced services to its members and the Palestinian banking community at large.

In March 2013, Mr. Shawwa joined the Palestine Commercial Bank, where he succeeded in significantly expanding its geographical scope, market share and customer base. In 2014, he took a crucial step of raising the bank's capital and market share by issuing convertible bonds, which is an innovative and unprecedented measure in the Palestinian banking sector, which strengthened the bank's finances and significantly contributed to the development and deepening of the local capital market.

Since its inception in 2002, Mr. Shawwa has been a prominent and active member of the Board of Directors of Palestine Investment Fund (PIF), Palestine's sovereign wealth and Palestine investment fund. As the state's principal developmental investment arm, PIF operates as an independent public sector corporate entity, primarily aimed at promoting sustainable economic development by mobilizing local and foreign investments; and securing and managing rewarding long-term returns for fund investments, for the ultimate benefit and welfare of the Palestinian State's present and future generations.

Finally, Mr. Shawwa currently chairs the Board of Directors of the Palestine Avenir for Childhood Foundation, and the Weight Lifting Association, and is a member of Al-Quds Open University's'

Board of Trustees. He is also a member of the Boards of directors of several other organizations, including the Palestinian Businessmen Association; Young Presidents Organization (YPO), Taawon Corporation, Mahmoud Abbas Foundation, Palestine Power and Generating Company, Yasser Arafat Foundation, and Palestine Education for Employment. Mr. Shawwa is also a member of the Union of Arab Bankers. Previously, Mr. Shawwa chaired the Boards of several institutions such as Reef for Microfinance, NatHealth, Gaza Sporting Club, and Atfaluna Society for Deaf Children.

Dr. Mohammad Al Ahmad
Board member

Mohammad Farouq Al-Ahmad holds a PhD in Private Law and is currently an assistant professor at the faculty of Law and Public Administration at Birzeit University. Dr. Mohammad Al-Ahmad is also the Dean of Student Affairs at Birzeit University and a legal consultant to many private and public institutions.

Dr. Mohammad was a member of the Board of Directors of a number of public, private and official institutions .He worked on preparing and drafting many proposals, laws and regulations in several fields.

He also participated in many scientific visits to various Arab, regional, European and international universities where he delivered various training sessions in addition to being an active participant in local, regional and international conferences and forums.

Dr. Adel Zagha
Board member

He was born in Nablus in 1956, he holds a PhD in Economic Theory and Public Finance from the Free University of Berlin in 1994, a Master's degree in Economics from Vanderbilt University/USA in 1984, and a Bachelor's degree in Business and Economics from Birzeit University in 1981. He is professor of Economics at Birzeit University, where he held the position of the Chairman of the Department of Economics, and the Director of the Master's Program in Economics from 1994-1999, and Dean of the Faculty of Commerce and Economics from 1999 to 2004. He was appointed by Birzeit University as Director of Planning and Development in 2005, then Vice President for Planning, Development and Quality during the period 2006-2011. After that, he became Vice President for Administrative and Financial Affairs during 2011-2016. He is currently working on a book on global political economy. During 2016-2018, he was a visiting scholar at the Arab Center for Research and Policy Studies and a visiting professor at the Doha Institute for Graduate Studies. His latest research work is part of a research team with UNFPA to draw up a report on the population in Palestine until 2050. He has research relationships with the Palestinian Economic Policy Research Institute (MAS), the Institute for Democracy and Human Rights (MUWATIN), and the Chris Michelsen Institute in Norway. His research themes include tax reforms and fiscal decentralization in developing countries, issues of higher education quality and institutional performance, and poverty and inequality issues. He also works as a consultant to numerous consulting institutions for the public and private sectors in Palestine.

Ms. Rula J. Shunnar
Board member

With over 20 years of experience in Project Management, Private Sector Development, Entrepreneurship, and Aid management, Ms. Shunnar is the Founder and Director of Forward company for business consultation, Previously she joined Welfare Association (Taawon) as Head of Programs. Prior to that, she has worked with Silatech for four years, first as a Country Representative for Palestine and Jordan, and then as the Director of Country Operations, overseeing Silatech's engagements across the MENA Region.

Her extensive work with US and international organizations has enabled her to acquire knowledge in multicultural business and work environments, and enriched her diverse experience in several fields.

In 2010, she served as the Senior Advisor to the Palestinian Minister of National Economy concerned with Private Sector Development, International Aide, and Donor Coordination, where she was responsible for bilateral and multilateral relations with all donors and International agencies. During this assignment, Miss Shunnar made significant contributions to formulating the national strategy for MSME's in Palestine, and she led negotiating teams for significant Economic Growth, Investment Climate Improvement, and Private Sector Development projects.

As an entrepreneur in the Sustainable energy field, Ms. Shunnar participated in Establishing a Palestinian company that turned out to be a pioneer in the sustainable energy field.

As an expert in Private Sector Development, Ms. Shunnar has chaired and participated in sessions on Youth, Technology, Innovation in Education, Entrepreneurship, and family business in various conferences in the US, Europe and Palestine.

Rula holds an MBA in International Business, from University of St. Thomas, and Bachelor's degree in Computer Information System from University of Houston, Texas.

In 2019, Rula became a board member at An-Najah University Board of Trustees and the Palestine Deposit Insurance Corporation.

Mr. Tareq El Masri
Board member

Mr. El Masri is currently the Companies Controller in the Ministry of National Economy. He held several positions in MOE, where during the period 2014-2018 he was Director General for Companies Registration Department. Prior that, he held the position of Adviser to the Minister of National Economy Office.

Mr. El Masri is a member of the Board of directors of numerous national institutions, including the Supreme Council for Public Procurement Policies, the Supreme Council for Palestine Airways, the Palestinian Public Finance Institute. He was also a rapporteur of the Financial and Administrative Control Authority of the Arab Organization for Industrial Development and Mining, and vice Chairman of the Palestinian Capital Market Authority.

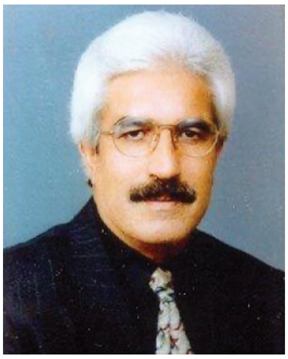
Mr. El Masri holds a graduate degree in accounting from Al Najah University (1995).

Mr. Ahmed Al-Sabah
Board member

Mr. Al-Sabah held several positions in the Ministry of Finance. Since 2013, he has held the position of General Accountant at the Ministry of Finance, and Director of Governmental Property Accounts. During the period 2007-2008, he held the position of General Account Manager. During 2003-2007, he was General Manager of Treasury. Prior to that, he was the General Manager of payments.

Mr. Al-Sabah is a member of the Board Of Directors of several national institutions, including the Establishment for the Management and Development of Orphans Fund, the Supreme Council for Civil Defense and the Palestinian Electricity Transmission Ltd.

He holds graduate degree in Business Administration from Birzeit University, (2007)



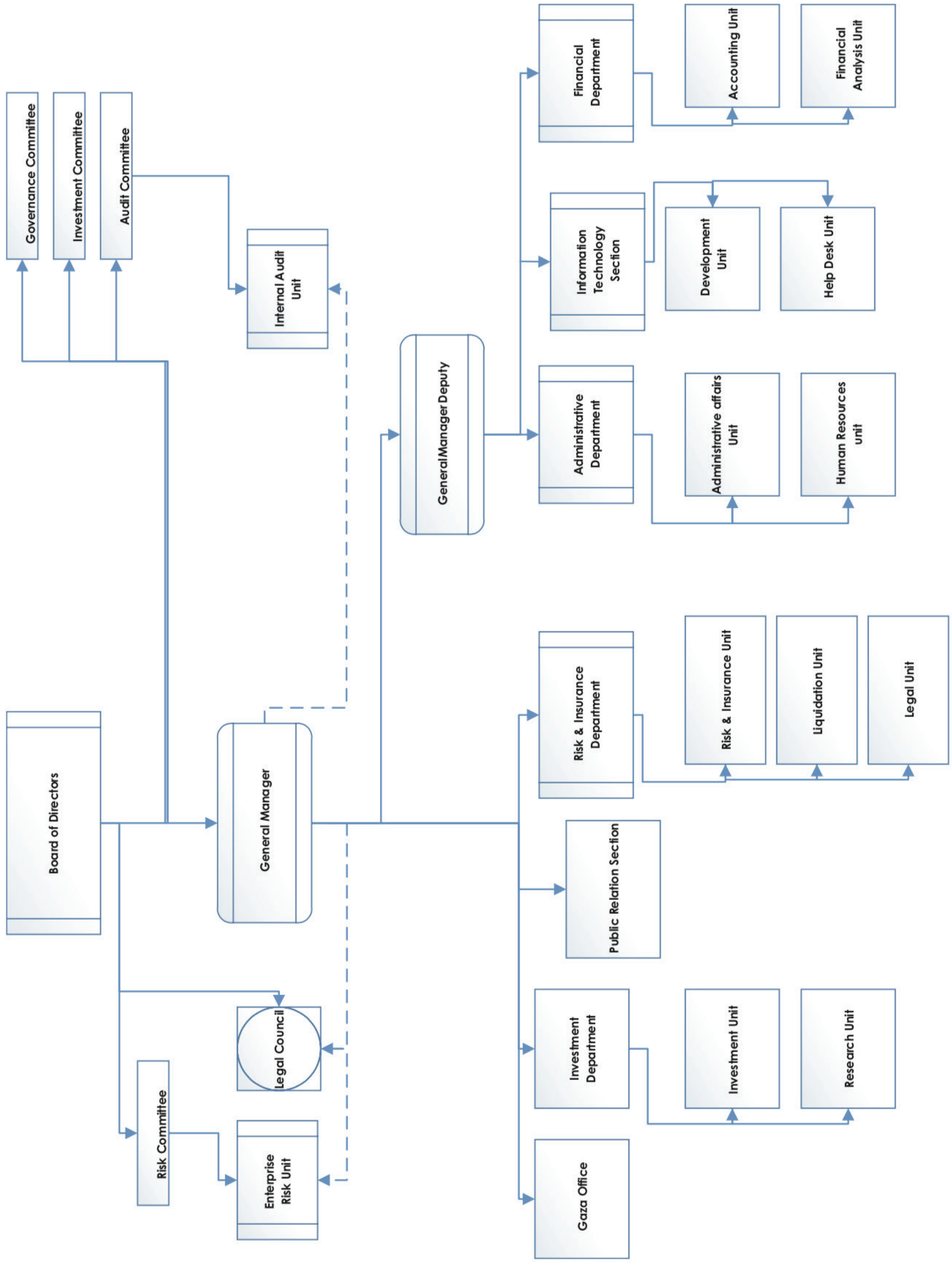
Dr. Ghazi Musleh
Board member

Dr. Musleh held several positions. Over the period 1981-1989, he held the position of Director of the Arab bank – Sweileh, Jordan. He has held the position of Assistant General Manager at the Arab Jordan Investment Bank in the period 1992-1998. He held the position of General Manager of Doha Bank - Pakistan in the period between 1998- 1999, and Deputy General Manager and Acting General Manager of the International Bank of Palestine for the period 1999-2002. Then he held the position of Deputy General Manager and Acting General Manager at Al-Quds Bank for the period 2002-2010.

Dr. Musleh is a member of the Board of Directors of numerous companies owned by banks in Jordan, and he has presented several studies and research papers, including what has been published in official journals and others submitted to complete the study requirements.

He holds a PhD degree in political science from Cairo University (2013).

PDIC Organization Chart



Committees

I. PDIC Board Committees:

a. Governance Committee
- Mr. Tareq El Masri - Chairman
- Dr. Mohammed Al Ahmad
- Ms. Rula Shunnar

b. Investment Committee
- His Excellency Mr. Azzam Shawwa - Chairman.
- Mr. Ahmed Al-Sabah
- Dr. Adel Zagha

c. Audit Committee
- Dr. Ghazi Musleh - Chairman
- Mr. Tareq El Masri
- Dr. Mohammed Al Ahmad

d. Risks Committee
- Ms. Rula Shunnar- Chairman
- Dr. Ghazi Musleh
- Dr. Adel Zagha

II. Committee(s) established by PDIC's law:
Liquidation Committee
- Director-General Mr. Zaher Hammuz, Chairman.
- Companies Controller Representative, Ministry of National Economy, Mr. Tareq Rabay'a.
- PMA, Banking Supervision and Inspection and Control Department Representative Mr. Mostafa Abu Salah.
- External Advisors chosen by PDIC Board depending on their experience and competency in accounting, audit and law:
  a. Financial Advisor, Dr. Hanna Quffa.
  b. Legal Advisor, Mr. Sharhabeel Azza'im

Message from the Chairman

It gives me great pleasure on behalf of the Board of Directors to present the seventh's annual report for the year 2020 of the Palestine deposit insurance corporation. I am truly proud of this leading professional Corporation and its role as a vital pillar of the financial safety net in Palestine; through providing protection to the vast majority of Depositors at the banks.

PDIC enjoys a remarkable presence both regionally and internationally. It has participated in several national and international conferences, which enabled it to exchange expertise and keep abreast of the latest developments in the deposit insurance field. This has contributed to the reinforcement of financial stability and to the boost of public confidence in the Palestinian banking sector.

Despite the spread of the Corona pandemic (Covid-19) since March 2020,and its negative impact on the whole economic sectors, and the return of the clearance revenue crisis (during the period from May to November), the key performance indicators of the Palestinian banking sector at the end of 2020 revealed positive results. Deposits in licensed banks increased at the end of 2020 by 1,753.6 million USD, an increase of 13.10 percent compared to 2019. Deposits amounted to 15,138.3million USD. The total assets of licensed banks increased by 2,543 million USD an increase of 14.7 percent compared to 2019. Total assets in 2020 amounted to 19,886.2 million USD. Besides, the outstanding balance of net credit facilities granted by licensed banks increased at the end of 2020 amounted to 953.4million USD, an increase of 10.9 percent compared to 2019. The outstanding balance reached 9,711.4 million USD. Banks continued to maintain high rates of capital adequacy ratio, recording 15.6 percent by the end of 2020, which is higher than both the minimum rate set by PMA and the required rate according to international standards. Furthermore, the coverage ratio of provisions for non-operating facilities increased by 86.1 percent by the end of 2020, compared to 75 percent at the end of 2019.

In conclusion, I kindly invite you to view PDIC's seventh Annual Report. I hope that 2021 will be a turning point and a step towards the development the Palestinian national economy. I reiterate my confidence in the reliability and strength of the banking sector.

عزام الشوا

Message from the Director General

I am honored to present to you PDIC's seventh Annual Report. This report highlights PDIC's achievements in 2020, which aims to contribute to the stability of the financial and banking sector, and to promote public confidence in the banking sector in Palestine, as PDIC is a pillar and a partner in financial safety net in Palestine

In 2020, there was a remarkable development in PDIC operations and deposit indicators. As for PDIC, concerning deposit indicators, deposits subject to the provisions of PDIC Law amounted to 14,482.7 million USD by the end of 2020 compared to 12,725.7 million USD by the end of 2019, an increase of 13.81 percent. These deposits are attributed to about 1,806 thousand depositors, with an average deposit value of 8,384 USD in 2020 in comparison with 1,730 thousand depositors and with an average deposit value of 7,735 USD by the end of 2019. Fully insured depositors with the coverage limit of 20,000 USD, or its equivalent in other currencies, constituted 93.54 percent of all depositors covered by the provisions of the law at the end of 2020.

In Financial terms, PDIC's revenues from membership fees of member banks, and the returns on investments were about 26.3 million USD in 2020; of which, 4.6 million USD came from membership fees of Islamic banks. Consequently, PDIC has managed to increase its reserves to 212 million USD in 2020, an increase of 12.83 percent over 2019.

Internationally, PDIC has participated in several conferences to enhance its strategic goals and build an international network with other deposit insurance corporations. Such participation aimed to promote relations and exchange experiences between regional and international corporations and to examine the challenges facing deposit insurance corporations, and to benefit from the experiences of other corporations in enhancing their role in financial stability and economic support, as well as reviewing the latest developments regarding deposit insurance systems.

Locally, PDIC's response to the Covid-19 crisis was to adjust the premium rate by reducing it twice during the year 2020 from 0.3% to 0.1% from the average of total eligible deposit, to support financial stability in the Palestinian banking sector. Furthermore, PDIC has taken some measures to keep its employees safe from the risk of infection with Covid -19 virus, it also formed a business-continuity-plan -team to communicate and coordinate with senior management and PDIC's staff, in addition, PDIC prepared a continuity plan that aligned with the Council of Ministers, Palestinian Ministry of Health instructions, moreover, PDIC's employees donated to the Palestinian national fund; Waqfet Ezz, that was established to support the private sector affected by the Coronavirus pandemic.

PDIC has continued to devote its efforts to achieve its mission and vision. To this end, PDIC focused on raising awareness of the public about the deposit insurance system in Palestine. PDIC organized and held several workshops and public awareness meetings for several banks, companies, institutions, universities, and colleges. In its turn, this initiative allowed the participants to become more familiar with PDIC in terms of establishment, the scope of work, role, and responsibilities.

To conclude, I would like to thank PDIC's Board of Directors Chairman, it's Board of Directors, staff, safety net members, the Palestinian Monetary Authority, the Palestinian Ministry of Finance, all member banks, and the Palestinian banks association for their dedication and efforts. We will continue to build on our success, raise our performance at national and international levels in line with the best and most up-to-date international practices to achieve our missic maintain the stability of the Palestinian banking sector.

Chapter 1
Economic Indicators

Economic Indicators

Economic indicators reflect the state of a country's economy. Economically, a country strives to improve these indicators in order to advance the economic development of the country.

1. Palestine Economic Indicators

Unlike other economies, the Palestinian economy is characterized by being severely restricted by the Israeli occupation, which deprives it of a large part (if not the largest part) of its national resources, limits the movement of people, the flow of goods and the provision of services, in order to increase the severity of economic dependency, and stunt economic growth. In addition, the Palestinian economy depends heavily on foreign aid.

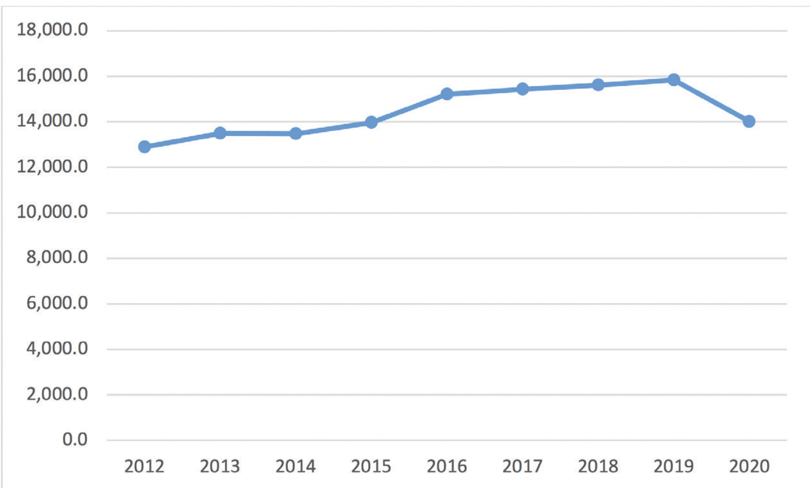
This section reviews key macroeconomic indicators for the year 2020, in order to portray the Palestinian economic performance, including indicators such as GDP, aggregate demand and unemployment rate.[1]

1.1 Gross Domestic Product (GDP)

The Palestinian economy witnessed sharp decline by 11.5% in 2020 compare to 2019, due to Covid-19 pandemic ramifications, to reach about 14,015.8 million USD.

During 1st quarter 2020, the emergency status was announced in Palestine and the government restricted the movement between governorates, this lockdowns stopped many economic activities. During the third and fourth quarters in 2020 the economic activities start returning back gradually within the Palestinian government procedures.

Figure 1: GDP in Palestine (2012 – 2020)

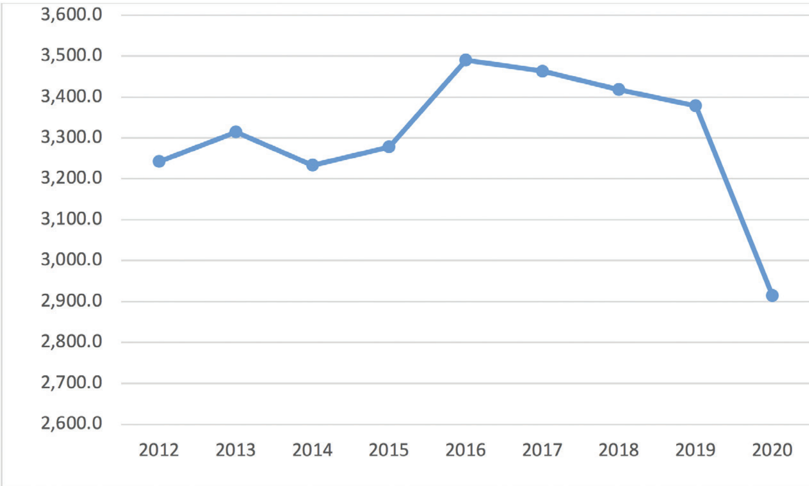


1 Preliminary data issued by Palestine Central Bureau of Statistics-base year -2015.

1.2 GDP Per Capita

GDP per capita is used as a measure of the standard of living in the economy. GDP per capita decline by 13.7% compared to 2019, to reach 2,914.1USD. This decline is largely due to Covid-19 pandemic ramifications.

Figure 2: GDP per Capita in Palestine (2012 - 2020)

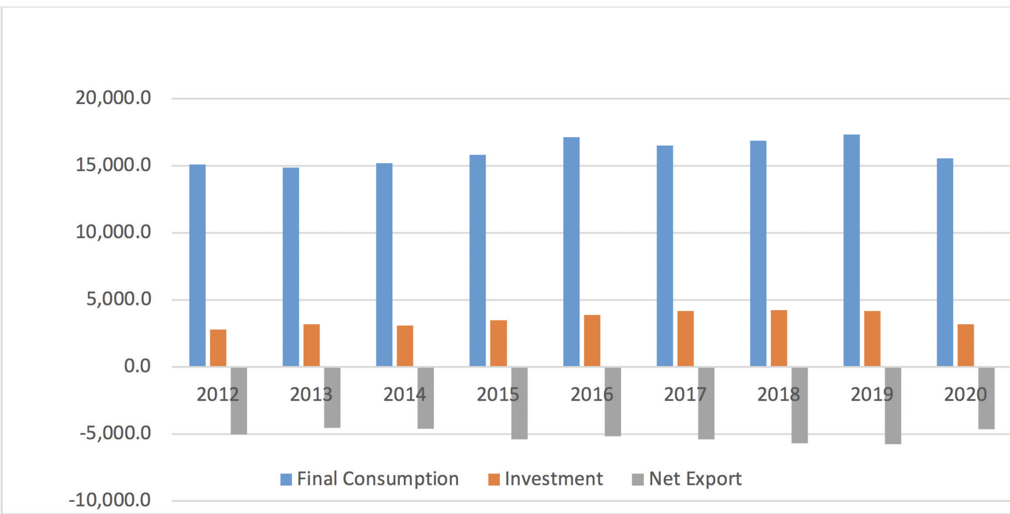


1.3 Aggregate Demand

The major components of aggregate demand (consumer spending, government spending, investment and net exports) witnessed sharp decline in all its components during 2020. The final consumer spending decreased by 10.1% compared to the previous year, and the investment growth rate declined by 23.2%.

With regard to the trade deficit, exports decreased by 6.7%, and imports increased by 15.3% compared to the previous year.

Figure 3: Aggregate Demand in Palestine (2012 - 2020)



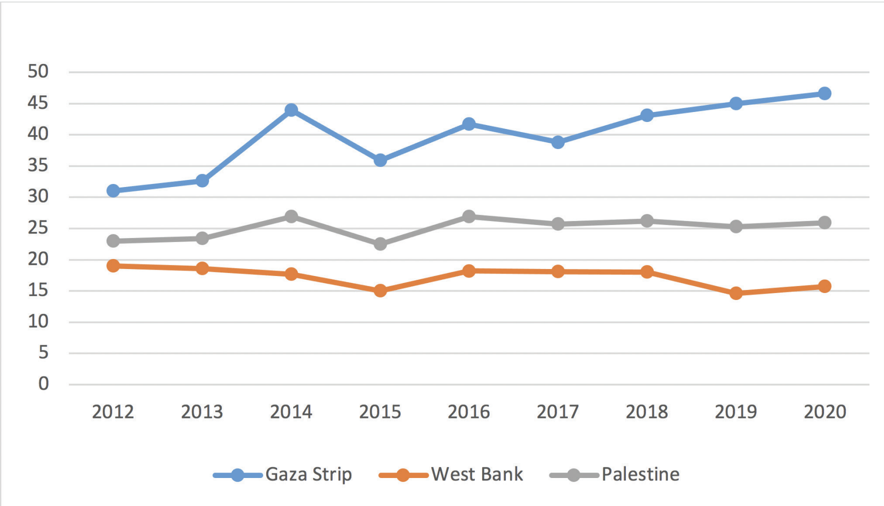
1.4 Labor Market Indicators

The labour market is considered the most affected sector during the ongoing Coronavirus pandemic since the beginning of 2020, as the labour force participation rate decreased to 41% in 2020 compared to 44% in 2019. Also, data indicated that this percentage decreased from 46% to 44% in the West Bank and decreased from 41% to 35% in Gaza Strip during the same period.

This explains why unemployment rates didn't increase significantly during the Year 2020, as the unemployment rate among labour force participants (15 years and over) in 2020 was about 26%, compared to 25% in 2019 while the total underutilization of labour was about 36%.

The number of the employed in the local market decreased from 877 thousand in 2019 to 830 thousand in 2020, which is decreased in Gaza Strip by 13% and in the West Bank by 2% for the same period.[2]

Figure 4: Unemployment Rate in Palestine (2012-2020)



The unemployment rate in the Gaza Strip was 46.6% compared to 15.7% in the West Bank.

2. Palestinian Banking Sector Indicators

The banking sector is a fundamental component of the Palestinian economy. As such, improvements in the banking sector indicators are an indication of improvement in the economy as a whole. Therefore, the Palestinian Monetary Authority (PMA) is doing its best to maintain financial stability in the economy by working on improving key financial indicators of banks operating in Palestine,

2 Labor force report, Palestinian Central Bureau of Statistics, 2020.

which showed improved performance in 2020 compared to 2019. Following is a summary of the most important improvements in performance indicators:

2.1 Total Deposits

Total customer deposits in the Palestinian banking sector amounted to 15,138.3 million USD at the end of 2020, compared to 13,384.7 million USD at the end of 2019, indicating an increase of 1,753.6 million USD or 13.10%. In comparison, deposits increased by 9.47% equivalent to 1,157.4 million USD during 2019.

Figure 5: Historical development of deposits in the banking system (2009 - 2020)

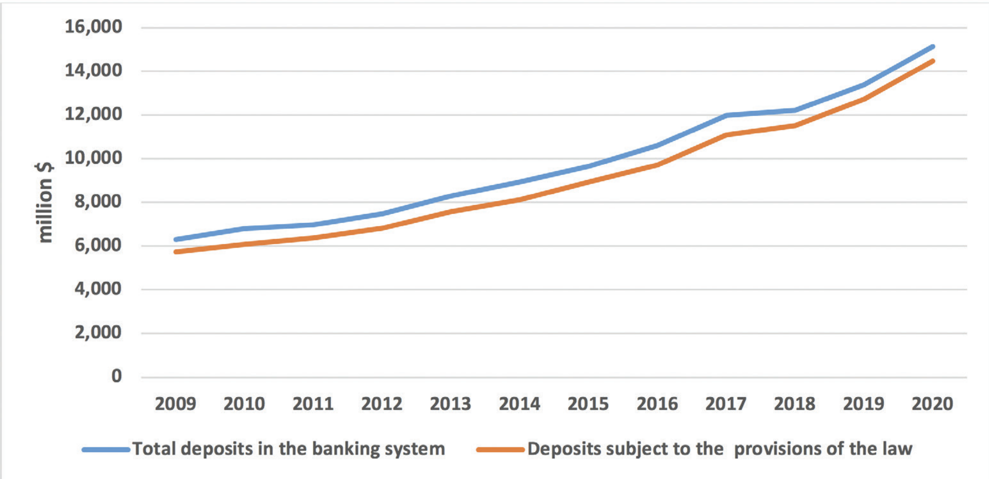
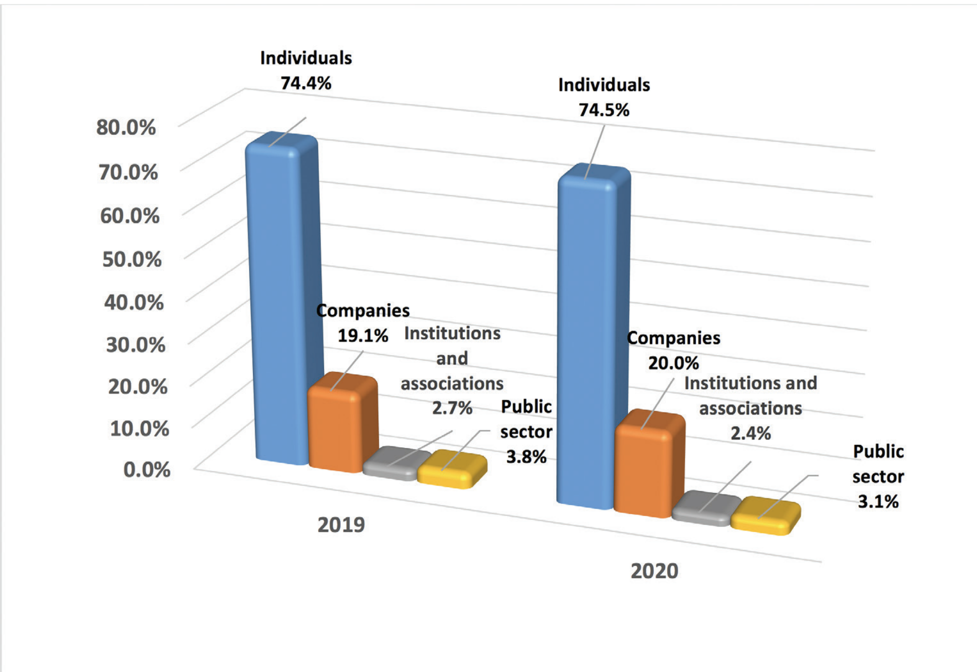


Figure (6): Distribution of Deposits by Sector (2019 - 2020)



In 2020, the share of individuals and companies in total deposits reached 74.5% and 20%, respectively. Compared to 74.4% and 19.1% in 2019. On the other hand, the share of the institutions, associations, and the public sector decreased in total deposits during the same period

Table (1): Distribution of deposits in the banking system across various sectors (million Dollars) and growth rates (2019-2020)

	Individuals	Companies	Institutions and associations	The Public sector
2019	9,956.0	2,559.8	365.2	503.7
2020	11,283.5	3,020.4	369.4	465.1
Growth rates	13.3%	18.0%	1.2%	-7.7%

Individuals' deposits represented 74.5 percent of total deposits in the banking system by the end of 2020

Table (2): Distribution of customer deposits by currency and their growth rates (million Dollars) 2019-2020

	NIS deposits	JD deposits	USD deposits	Deposits in other currencies
2019	4,805.9	2,995.7	5,186.6	396.5
2020	5,549.9	3,254.2	5,925.2	409.0
Growth rates	15.5%	8.6%	14.2%	3.1%

Table (3): Development of deposits and depositors in Commercial banks versus Islamic banks (2012-2020)

Year	Deposits (in $ million)		The number of depositors (in thousands)		Total	
	Commercial banks	Islamic banks	Commercial banks	Islamic banks	Deposits (million $)	Depositors (in thousands)
2012	6,858	626	1,256	208	7,484	1,464
2013	7,553	751	1,233	203	8,304	1,435
2014	8,053	882	1,245	222	8,935	1,467
2015	8,600	1,054	1,264	196	9,654	1,460
2016	9,319	1,285	1,314	223	10,605	1,536
2017	10,345	1,637	1,344	259	11,982	1,604
2018	10,391	1,836	1,355	281	12,227	1,636
2019	11,172	2,213	1,388	343	13,385	1,731
2020	12,468	2,670	1,447	359	15,138	1,806

By the end of 2020, deposits held by commercial banks accounted for the lion's share of 82.4% of total deposits, compared to 83.5% at the end of 2019, indicating a decrease of 1.3 percent. In contrast, deposits held with Islamic banks accounted for 17.6% of total deposits at the end of 2020 compared to 16.5% at the end of 2019, reflecting an increase of 6.7%.

Figure (7): Deposits in Commercial Banks in Comparison with Deposits in Islamic Banks

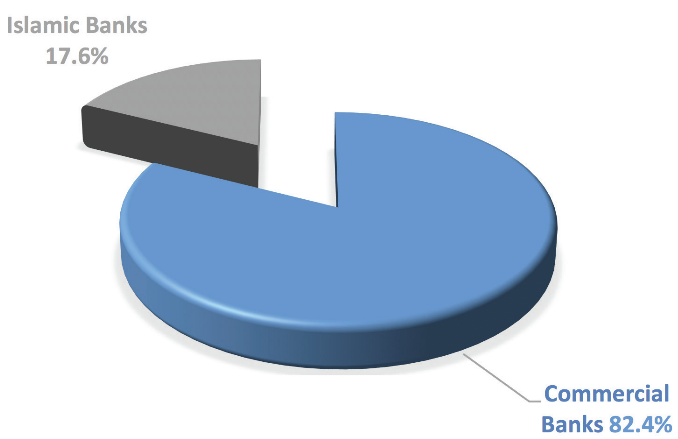
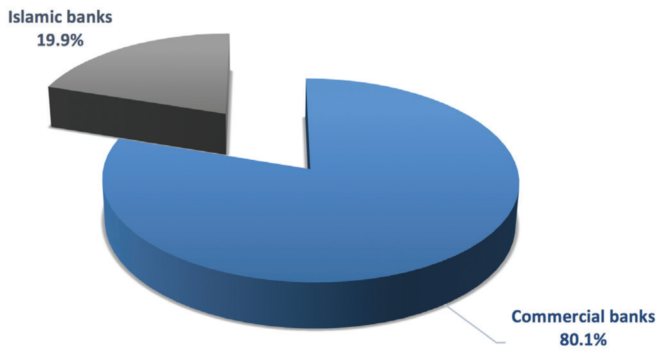


Figure (8): Percentage of Commercial Banks depositors in comparison to Islamic Banks depositors



The percentage of depositors with commercial banks decreased by 0.1%, representing 80.1% of the total depositors at the end of 2020, compared to 80.2% at the end of 2019.

2.2 Credit Facilities Portfolio

- Direct (net) credit facilities amounted to about 9,711.4 million USD at the end of 2020 compared to 8,757.9 million USD at the end of 2019, indicating an increase of 953.4 million USD or 10.9%. These facilities accounted for 48.8% of total assets at the end of 2020, compared to 50.5% at the end of 2019.
- Off balance sheet items (indirect credit facilities) of the banking system amounted to about 1,691.8 million USD at the end 2020 compared to 1,560 million USD at the end 2019, indicating an increase of USD 131.8 million or 8.45%. These indirect credit facilities accounted for 8.51% of total assets at the end of 2020 compared to 8.99% at the end of 2019.

2.3 Non-performing loans

- The ratio of non-performing loans to total direct credit facilities increased by 3.1%. The percentage was 4.24% for banks operating in Palestine at the end of 2020, compared to 4.11% at the end of 2019.
- The coverage ratio of provisions for non-operating facilities was about 86.1% for banks operating in Palestine at the end of 2020, compared to 75% at the end of 2019, a decrease of 14.8%.

- Credit facilities granted to related parties decreased to total credit facilities by 25.3%, reaching 4.8% at the end of 2020, compared to 6.4% at the end of 2019.

2.4 Key Performance Indicators of the banking sector

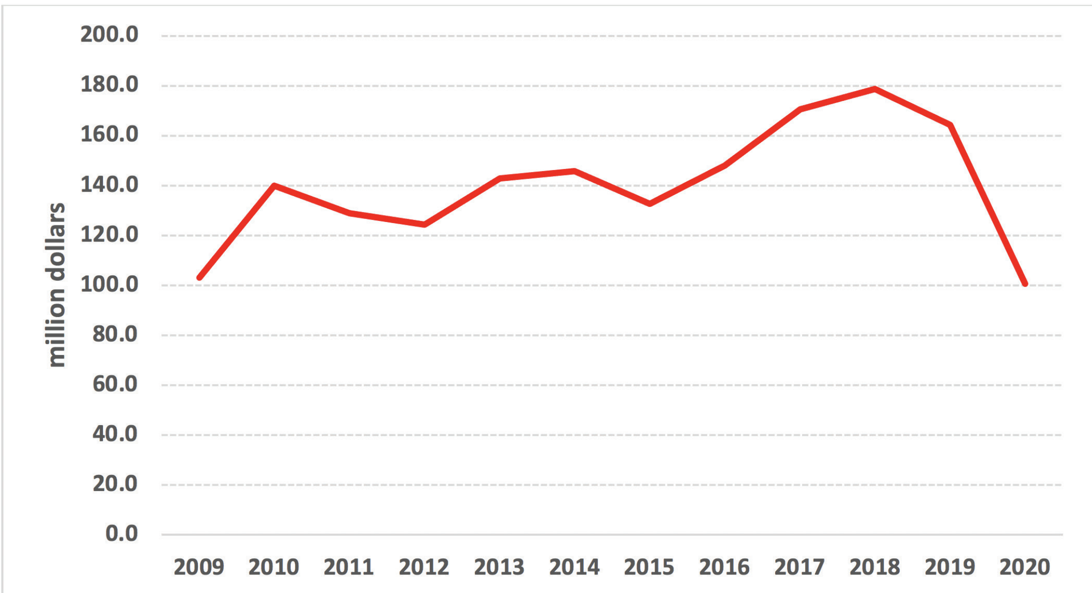
2.4.1: Capital Adequacy Ratio

- The capital adequacy ratio for the overall banking system was about 15.6% at the end of 2020 compared to 16.6% at the end of 2019. The PMA instructions set the minimum requirement for capital adequacy ratio at 13%, whereas Basel III requires a minimum ratio of 8%.

2.4.2: Profitability

- As for the income statement, the net profit after taxes for the banking system at the end of 2020 was 100.6 million USD, compared to 164.4 million USD at the end of 2019, registering a decrease of 63.7 million USD, equivalent to 38.8%.
- The net profit after taxes to the total assets of the banking system amounted to 0.51% at the end of 2020, compared to 0.95% at the end of 2019.
- The net profit after taxes to the first tier of the banking system's capital amounted 6.07% at the end of 2020, compared to 10.05 % at the end of 2019.

Figure (9): Net income for banks operating in Palestine (2009 -2020)



2.5 Performance of Member Banks

Despite the difficult political and economic situation in Palestine, there was an improvement in the performance indicators of member banks (13 banks) in terms of total deposits and credits. Consequently, it reflects the growing public confidence in the safety and stability of the banking sector as a result of the establishment of the Palestinian Deposit Insurance Corporation, along with the instructions of the Palestine Monetary Authority and strict measures to enhance financial stability.

Following is a summary of the most important developments of member banks' key performance indicators in 2020:

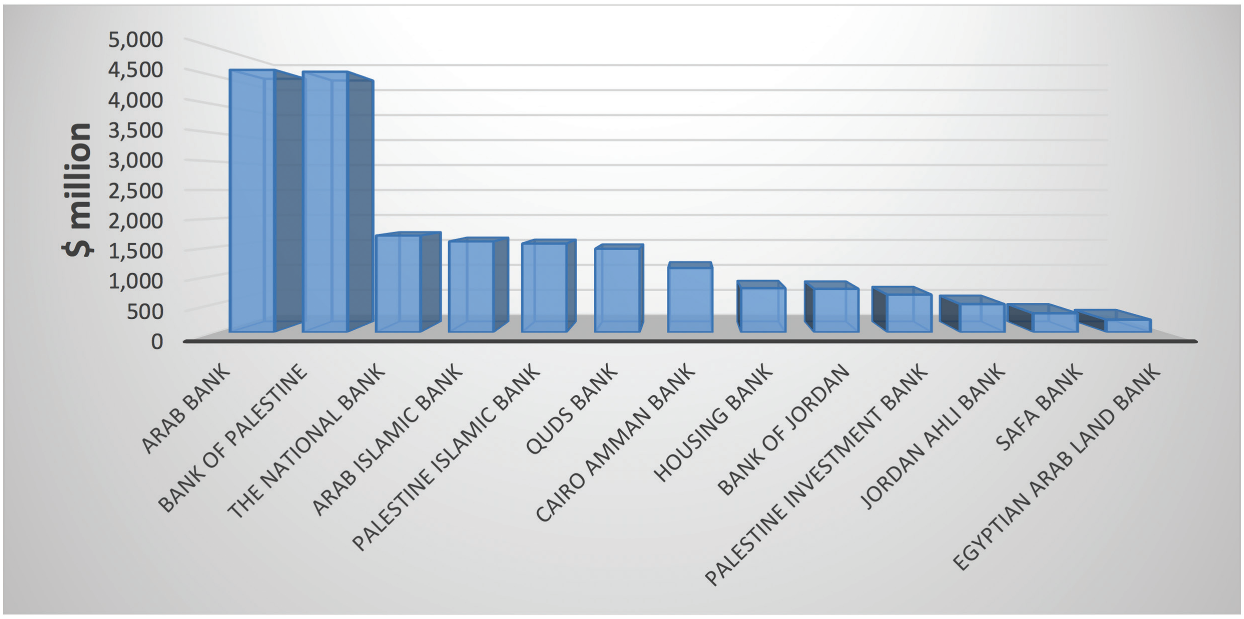
2.5.1: Number of branches and representative offices

The number of branches and representative offices of banks operating in Palestine increased at the end of 2020 to 379, compared to 370 at the end of 2019. Nine new branches/offices were opened in 2020. This increase resulted from the branching policy endorsed by the PMA to enhance and improve easy access banking services offered to the public.

2.5.2: Structure of assets and liabilities

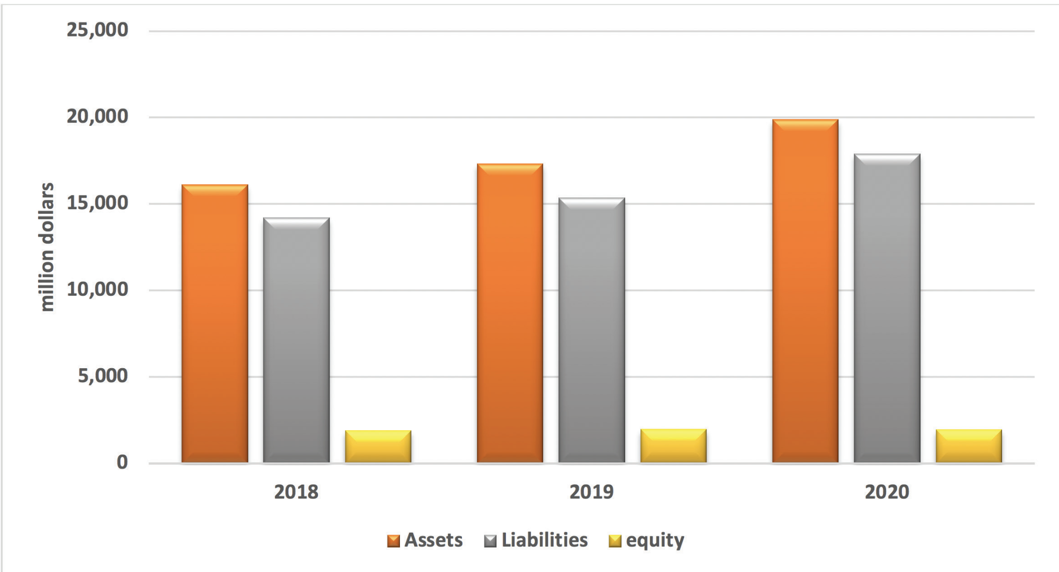
- Total assets of banks operating in Palestine amounted to around 19,886.2 million USD at the end of 2020 compared to 17,343.2 million USD by the end of 2019, increasing by 2,543 million USD or 14.7% increase, compared to an increase by 1,122.5 million USD or a 6.96% increase during 2019.
- Total liabilities for banks operating in Palestine amounted to about 17,918.8 million USD by the end of 2020 compared to 15,361.9 million USD by the end of 2019, increasing by USD 2,556.9 million, or an increase of 16.6 %, compared to an increase of 1,048.8 million USD or a 7.37% increase during 2019.
- Total owners' equity of banks operating in Palestine amounted to around 1,967.4 million USD by the end of 2020 compared to 1,981.3 million USD by the end of 2019, decreasing by 13.9 million USD or 0.7 % decrease, compared to increase of 73.6 million USD or a 3.85% increase during 2019.

Figure (10): Total Assets of Banks Operating in Palestine, by the end of 2020



Member banks' investments in financial assets (stocks and bonds inside Palestine and abroad) amounted to about 1,354.2 million USD by the end of 2020 compared to 1,403.8 million USD by the end of 2019, indicating a decrease of 49.5 million USD or 3.5%. Investments represented 6.8% of total assets in 2020 compared to 8.1% by the end of 2019.

Figure (11): Change in Total assets, liabilities and Equity of Banks Operating in Palestine (2018 – 2020)



Key Financial Performance Indicators for Member Banks

Table (4): Key Financial Performance Indicators (2018 - 2020)

Ratio	2018	2019	2020
Credit facilities (net) to total assets	50.9%	50.5%	48.8%
Investments in financial assets stocks and bonds inside Palestine and abroad" to total assets	8.5%	8.1%	6.8%
Non-performing facilities to total direct facilities	3.04%	4.11%	4.24%
Capital adequacy ratio	16.80%	16.59%	15.62%
Return on total assets (after tax)	0.95%	0.95%	0.51%

Table (5): Banks operating in Palestine, by the end of 2020

Operating banks in Palestine by the end of 2020	Year Of Establishment	Number of Branches & offices by the end of 2020	Total assets by the end of 2020 (USD million)
Local Banks			
Bank of Palestine	1960	74	4,577.6
The National Bank	2006	37	1,699.5
Arab Islamic Bank	1996	27	1,595.9
Palestine Islamic Bank	1997	45	1,558.1
Quds Bank	1995	39	1,467.1
Palestine Investment Bank	1995	21	661.1
Safa Bank	2016	9	332.6
Foreign Banks			
Arab Bank	1994	33	4,610.2
Cairo Amman Bank	1986	22	1,129.7
Housing Bank	1995	15	774.3
Bank Of Jordan	1994	40	763.5
Jordan Ahli Bank	1995	10	494.3
Egyptian Arab Land Bank	1994	7	222.5

Figure (12): Bank Branches and Representative Offices by the End Of 2020

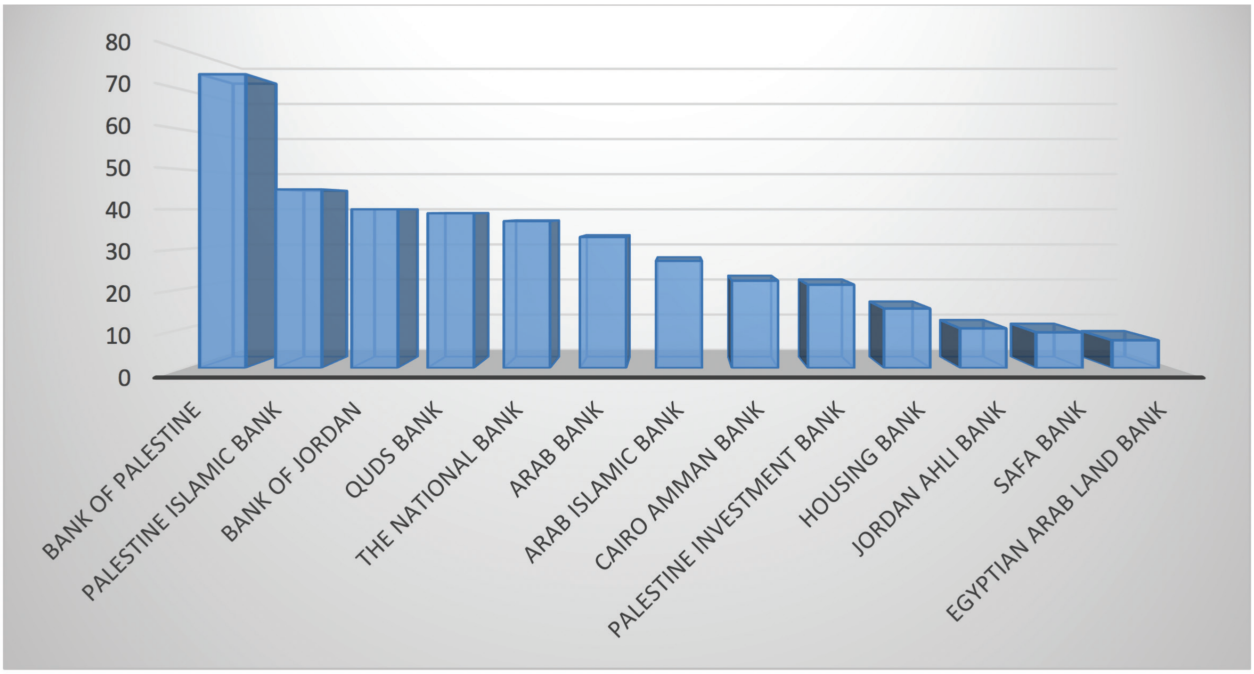


Table (6): Geographical Distribution of Gross Customer Deposits and Gross Direct Facilities by Region (USD Million)

Ramallah	2019		2020	
	Gross Customer Deposits	Gross Direct Facilities	Gross Customer Deposits	Gross Direct Facilities
Ramallah	5,239.2	5,673.6	4,733.4	4,704.3
AL-Ram	589.8	93.4	522.9	93.5
AL-Azaria	540.8	216.0	482.8	195.9
Bethlehem	1,112.3	508.5	1,036.1	469.0
Beit Jala	94.6	45.2	90.7	46.3
Beit Sahour	37.1	11.3	14.8	5.9
Hebron	1,541.4	563.6	1,245.3	536.5
Jericho	198.5	183.3	158.8	165.7
Tol Karem	715.9	208.6	617.2	205.1
Nablus	1,980.8	1,090.8	1,741.5	1,101.5
Salfeat	195.4	66.7	157.9	70.3

Topass	119.8	51.1	101.1	43.6
Qalqeliya	286.5	106.6	239.7	115.7
Jenine	1,057.1	368.1	934.2	376.6
West Bank	13,709.1	9,186.9	12,076.5	8,129.9
Gaza	969.8	602.1	880.9	616.2
Khan Younis	162.3	72.9	148.4	74.8
Rafah	78.7	56.7	74.6	56.1
Dear AL-balah	44.4	47.9	40.9	46.7
AL-Nosirat	96.9	53.9	93.0	54.9
Jabalia	77.0	58.3	70.5	58.0
Gaza Strip	1,429.2	891.8	1,308.2	906.7
Grand Total	15,138.3	10,078.7	13,384.7	9,036.6

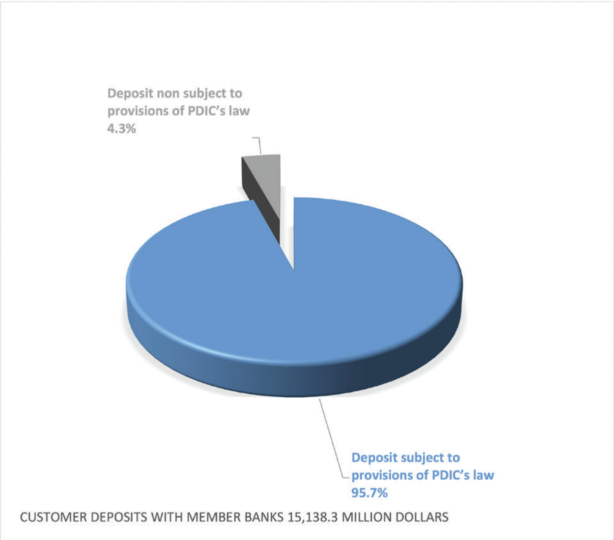
*Data Source :PMA

- **Scope of coverage**

a) Deposits subject to the provisions of the Law

Total deposits subject to the provisions of the law amounted to about 14,582.7 million USD at the end of 2020, compared to 12,725.7 million USD at the end of 2019, registering an increase of 13.81%. These deposits belong to about 1,806 thousand depositors with an average value of deposits of 8,384 USD in 2020 compared to 1,730 thousand depositors with an average deposit value of 7,735 USD in 2019.

Figure (13): Deposits Subject to the Provisions of the Law



Deposits subject to the provisions of the Law constituted 95.7 percent of total deposits held by member banks by end of 2020.

b) Fully- insured deposits

Fully insured deposits in accordance with the law - deposits with a balance less than or equal to 20,000 USD or its equivalent in other currencies - constituted 21.65 % of total deposits subject to the provisions of the law by the end of 2020, amounting to 3.135.9 million USD. They belong to 1,681 thousand depositors with an average deposit value of 1,866 USD compared to 2,760.2 million USD belong to 1,618 thousand depositors with an average deposit value of 1,706 USD by the end of 2019. The percentage of fully insured depositors was 93.54 % of total depositors whose deposits are subject to the provisions of the Law by the end of 2020.

The percentage of fully insured depositors reached 93.54 percent of total depositors whose deposits are subject to the provisions of PDIC's Law by the end of 2020

Fully insured deposits represented 21.65 percent of total deposits subject to the provisions of PDIC's Law by the end of 2020.

c) Partially insured deposits

Deposits subject to the provisions of the Law amounted to more than 20,000 USD or its equivalent in other currencies (partially insured deposits) amounted to about 11,346.8 million USD by the end of 2020, compared to 9,965.5 million USD by the end of 2019, constituting 78.35% of total deposits subject to the provisions of the Law by the end of 2020.

These deposits belong to about 116 thousand depositors, constituting 6.46% of total depositors whose deposits are subject to the provisions of Law, with an average deposit value of 97,681 USD by the end of 2020, compared to 106 thousand depositors with an average deposit value of 94,435 USD by the end of 2019.

The percentage of partially insured depositors represented 6.46 percent of total depositors whose deposits are subject to the provisions of PDIC's Law by the end of 2020

Partially insured deposits represented 78.35 percent of total deposits subject to the provisions of PDIC's Law by the end of 2020

d) Prompt Reimbursement

The concentration of prompt reimbursement amount with the largest bank was 22.25% percent by the end of 2020, 44.12% for the two largest banks and 54.73% for the three largest banks.

Table (7): Main Indicators of deposits and depositors at member banks (2013-2020)

Indicators	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Growth rate
Total deposits at member banks (USD million)	8,303.7	8,934.5	9,654.2	10,604.7	11,982.5	12,227.3	13,384.7	15,138.3	%13.1
Total depositors at member banks (in thousand)	1,435	1,467	1,460	1,536	1,604	1,636	1,730	1,806	%4.3
Average deposit value for total depositors at member banks (USD)	5,786	6,091	6,612	6,902	7,472	7,474	7,735	8,384	%8.4
Deposits subject to provisions of the law (USD million)	7,583	8,120	8,936	9,713	11,099	11,516	12,726	14,483	%13.8
Number of depositors whose deposits are subject to the provisions of the law (in thousand)	1,431	1,463	1,455	1,531	1,590	1,630	1,724	1,797	%4.3
Average deposit value for depositors whose deposits are subject to the provisions of the law (USD)	5,297	5,550	6,141	6,343	6,980	7,064	7,383	8,060	%9.2
Deposits subject to the provisions of the law to total deposits at member banks (%)	%91.3	%90.9	%92.6	%91.6	%92.6	%94.2	%95.1	%95.7	%0.6
Prompt reimbursement amount (USD million)	2,219	2,409	2,619	2,839	4,412	4,490	4,871	5,459	%12.1
Fully insured deposits (all deposits that are less than or equal to the coverage limit) (USD million)	1,093	1,198	1,301	1,382	2,459	2,592	2,760	3,136	%13.6
Number of fully insured depositors (in thousand)	1,319	1,342	1,324	1,386	1,493	1,535	1,618	1,681	%3.9
Average deposit value for fully insured depositors (USD)	829	893	983	997	1,648	1,688	1,706	1,866	%9.4
Partially insured deposits (all deposits that are in excess of coverage limit) (USD million)	6,490	6,922	7,635	8,331	8,640	8,924	9,966	11,347	%13.9
Number of partially insured depositors (in thousand)	113	121	132	146	98	95	106	116	%10.1
Average deposit value for partially insured depositors (USD)	57,631	57,138	57,962	57,174	88,482	94,020	94,435	97,681	%3.4
Fully insured deposits to total deposit subject to the provisions of the law (%)	%14.4	%14.8	%14.6	%14.2	%22.2	%22.5	%21.69	%21.65	%0.17-
Partially insured deposits to total deposit subject to the provisions of the law (%)	%85.6	%85.2	%85.4	%85.8	%77.8	%77.5	%78.31	%78.35	%0.05
Number of fully insured depositors to total depositors whose deposits are subject to provisions of the law (%)	%92.1	%91.7	%90.9	%90.5	%93.9	%94.2	%93.88	%93.54	%0.36-
Number of partially insured depositors to total depositors, whose deposits are subject to the provisions of the law (%)	%7.9	%8.3	%9.1	%9.5	%6.1	%5.8	%6.1	%6.5	%5.6
Concentration of prompt reimbursement amount (the largest two banks) (%)		%48.10	%46.40	%45.22	%45.58	%44.64	%44.59	%44.12	%1.05-
Concentration of prompt reimbursement amount (the largest three banks) (%)		%57.30	%56.70	%53.32	%54.02	%54.49	%55.23	%54.73	%0.91-

Chapter 2: Palestine Deposit Insurance Corporation

1.Deposit Insurance System in Palestine

It is important to have efficient and sound mechanisms to protect depositors' funds, protect banks from failure, and maintain the financial stability of the banking system, given the critical role banks play in the macro-economy. Therefore, the ability of the bank to operate efficiently within the economy depends on its ability to meet its financial obligations, thereby earning the confidence of depositors, which encourages them to deposit their funds at banks and reduce unnecessary withdrawals.

The failure of a bank and its inability to meet the depositors' claims may threaten financial stability and become ominous of a financial crisis within the banking system that negatively affects public confidence in the performance of the entire banking system. To avoid such a crisis, state authorities establish a "deposit insurance system" to serve as a major partner of an effective financial safety net to counter future crises facing the banks. The need for such a system increases with the rising transition to an open economy model, and the globalization of banking system, as banks started to accept deposits and offer services across borders. As a result, a financial crisis can become contagious and spread from one country to the other .[3]

The "Deposit Insurance System" is a mechanism established by governments through laws and regulations, aimed at protecting depositors (particularly small depositors) from losing their deposits in the event of a bank failure, thereby enhancing the financial stability of the banking system as a whole and enhancing savings and economic growth.

Figure 14: Financial Safety Net in Palestine

3 The first deposit insurance system was established in Czechoslovakia in 1924, followed by the United States of America. The first deposit insurance system in the Arab world was in Lebanon in 1967

PDIC is part of the financial safety net in Palestine and plays an important role in the financial stability in Palestine

2.Palestine Deposit Insurance Corporation (PDIC)

2.1 Establishment

Palestine Deposit Insurance Corporation (PDIC) was founded pursuant to the provisions of the Presidential Decree Law No. (7) Of 2013, and it is a legal entity that has legal capacity, as well as financial and administrative independence. It aims to protect depositors of member banks, encourage saving and promote confidence in the Palestinian banking system.

According to the provisions of its Law, PDIC enjoys vast authority necessary to exercise its function as an insurer of deposits and bank liquidator. The Law also grants its supervisory authority achieved through the regular interchange of data and information of member banks with the PMA as per certain protocols that guarantee providing all information necessary for the PDIC to achieve its objectives.

2.2 PDIC Management

Board of Directors

PDIC is managed and supervised by a Board of Directors comprised of 7 members:

- The Governor of the PMA, as Chairman, or in his absence, the Deputy Governor.
- A representative of the Ministry of Finance, appointed by the Minister of Finance from among high-ranking staff with relevant expertise.
- The companies controller in the Ministry of National Economy.
- Four independent members appointed by Presidential decree, upon the recommendation of the Board Chairman for a period of three years, renewable once.

Responsibilities and Authorities of the Board of Directors

PDIC's Board has several responsibilities, including developing PDIC's policies and strategies, approving the annual budget, approving plans and policies for investment of the PDIC's funds and specifying participating banks' annual membership fee, approving the organizational structure and job descriptions, endorsing internal regulations and operating procedures, passing and implementing bylaws, instructions, and procedures for conducting operations and determining coverage limits in addition to other duties.

PDIC Executive and Administrative Staff

PDIC had 23 employees at the end of 2020 coming from different disciplines and specializations.

✤ **Director General**

The Director General of PDIC carries out duties and authorities assigned to him/her pursuant to the PDIC Law, in order to manage the Corporation's affairs, including the implementation of the policies and decisions approved by the Board of Directors, supervising the Corporation's executive staff and monitoring the proper implementation of daily operations.

✤ **Finance Department**

This department is responsible for bookkeeping and accounting, maintaining adequate financial assets and resources and providing accurate and timely financial information to decision makers.

✤ **Administrative department**

a. Human resource Unit

The administrative department is specialized in Human Resource since they are considered as the most important factor in the success of the organization to achieve its strategic goals and vision. The department's main aim is to attract competencies and develop the skills of employees through enrolling them in different training courses and participating in various workshops and conferences that held annually on international level.

b. Administrative Unit

The department also works to create the best work environment for employees by providing administrative services, supplies and systems as well as contracting with vendors and service providers in accordance with professional standards to enhance employees' competencies to be more creative and raise their productivity and loyalty.

✤ Risk Analysis and Insurance Department

This department is assigned several important tasks and responsibilities that contribute to the development and implementation of PDIC's policies, as well as reinforcement of risk-management principles and promotion of confidence in the Palestinian financial system.

a. Risks and Insurance Unit

This unit is mainly responsible for following up the fee collection from member banks. It is also charged with preparing the risk-based fee collection system, in collaboration with the PMA and the Association of Banks in Palestine (ABP), for the purpose of mitigating operational risks, and ensuring fair contribution by banks to membership fees and encouraging banks to improve risk-monitoring tools. The division also sets in place appropriate measures to mitigate potential risks that may face member banks and conduct stress tests for enhancing risk mitigation.

b.Liquidation Unit

This unit is responsible for carrying out the tasks and responsibilities entrusted to PDIC as the liquidator of any bank pursuant to PDIC Law, regulations, instructions and decisions issued for that purpose. The unit is also responsible for developing appropriate policies for the implementation of the liquidation process, in a manner that guarantees its effectiveness and efficiency. Moreover, the unit formulates and develops depositor reimbursement procedures pursuant to PDIC Law, regulations, instructions and decisions issued for that purpose.

c.Legal Unit

This unit is responsible for handling all legal matters of PDIC, following-up on its progress with the related authorities, drafting PDIC's contracts and agreements and reporting periodically on the division's work.

✤ Internal Audit Unit

The activity of the Internal Audit Unit is closely linked with the Audit and Risk Committee of the Board of

Directors. The Unit is in charge of assessing the validity and soundness of the PDIC's various activities, providing recommendations in view of the audit, as well as assessing and analyzing results of various departments in order to enable them to fulfil their responsibilities effectively and efficiently, to help the organization in achieving its objectives.

✤ Enterprise Risk management Unit

The mission of this unit is to develop an integrated and effective framework for the management of financial, operational and strategic risks at the PDIC level and supervise the adequacy of risk management tasks and operations. In order to achieve its objectives, the unit uses risk assessment and mitigation techniques and works on minimizing variability and uncertainty in achieving objectives and best performance in the tasks and operations of the different departments. Further objectives of the unit include raising awareness towards and spreading the culture of risk management at the PDIC, supporting and advising the senior management in overcoming challenges and developing internal policies, systems and controls in line with relevant standards and best practices.

✤ Investment and Financing Department

This department is responsible for providing data and information needed to support the planning and development of processes in PDIC. It is also entrusted with the management of the PDIC's investments in line with the investment policy approved by the BOD and compliant with the provisions of PDIC Law.

a. Investment Unit

This unit is responsible for investing the PDIC's resources within a carefully considered investment policy and strategy approved by its Board of Directors. It primarily aims to preserve the capital and increase its reserves for depositors' funds, in addition to provide an adequate return at a low level of risk, all in line with PDIC's goals and role in reinforcing financial stability taking into consideration that its investments have high liquidity, which would enable it to respond to emergencies.

b. Research Unit

This unit was established at the beginning of PDIC's work, as PDIC has strong conviction that scientific research plays a key role in economic progress and prosperity. The unit's tasks and responsibilities include the following: providing PDIC with an appropriate information and analytical framework, necessary for its work, and achieving its principle of transparency and reliability. To this end, PDIC produces professional periodic publications, which are compliant with international standards.

✤ Information Technology Division

The Information Technology Division seeks to be an effective player in managing the development wheel in PDIC, at the organizational and administrative level, and at the level of services provided by the corporation. To achieve these goals, PDIC uses state-of-the-art technology that would serve the work environment, in addition to providing innovative solutions, preparing back up plans to provide information security, decrease risks to lowest levels, and protect PDIC's assets. The division also meets the technical needs of other departments and units.

✤ Public Relations Division

The public relations division is one of the basic support departments of PDIC. It is PDIC's "window" into the local and international community. It reinforces means of communication and cooperation locally and abroad with all targeted population of society. It also disseminates PDIC's vision and mission by the best means possible and it creates a database to all targeted sections to facilitate contacting and delivering messages to them in a positive and practical way while preserving the privacy of each section. The division also prepares materials for publication through the media.

✤ Gaza Office

Gaza office implements and enforces PDIC's policies; it is the corporation's representative in Gaza Strip. The office promotes public awareness of the Palestinian deposit insurance system in terms of establishment of PDIC and its goals. In addition, the office holds workshops and represents PDIC in many events in Gaza.

2.3 Equity of Deposit Insurance System and Financing Sources

PDIC's Equity is comprised of 20 million USD representing the government's share and 100 thousand USD non-refundable incorporation fees paid by each member bank within 15 days of the initiation of membership, in addition to the reserves established from annual membership fees collected from member banks.

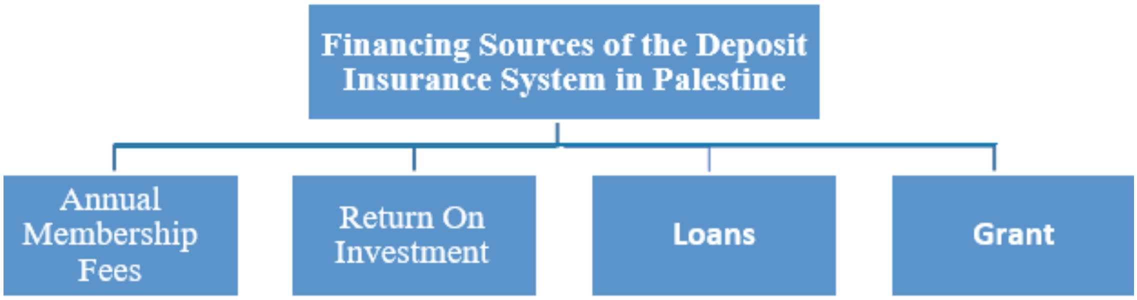


Figure 15: Financing Sources of the Deposit Insurance System in Palestine

PDIC is funded through annual membership fees collected from member banks in addition to the returns on investments of the deposit insurance funds. Moreover, the Corporation may accept financial grants from any entity approved by its Board, and may borrow if its financial resources fall short to meet its financial obligations.

2.4 Membership

PDIC membership is mandatory for all banks licensed by PMA, regardless of whether they are commercial or Islamic. The number of banks subject to the provisions of the Law reached thirteen by the end of 2020. Seven of which are local, and six are foreign banks

2.5 Membership Fees

The member bank is required to pay the membership fees on a quarterly basis. The membership fees equals an annual rate of 0.1% of the total value of the bank's deposits subject to PDIC Law. The Board of Directors may determine the membership fee rate based on the degree of risk of each member bank in line with the standards agreed upon with PMA and the Association of Banks in Palestine (ABP), and in accordance with the instructions issued for this purpose. The BOD may also review and amend the annual membership rate and establish a fees calculation mechanism.

2.6 Depositors Reimbursement

Upon publication of PMA decision to liquidate a member bank, PDIC becomes legally responsible for reimbursing insured depositors of that bank. PDIC is obliged to compensate depositors in accordance with the specified coverage limit. The coverage limit for each depositor is calculated on all of his/her deposits combined with the bank under liquidation, including accrued interest or accrued return, up to the date of publication of the liquidation decision of the member bank in the official Gazette.

The reimbursement amount becomes payable once the liquidation decision is published and must be paid by PDIC within 30 days of filing the depositor claim.

2.7 Liquidation

Pursuant to the Presidential Decree-Law No. (7) Of 2013, PDIC is the sole liquidator of a failing bank following the publication of a liquidation decision by Palestine Monetary Authority (PMA).

PDIC enjoys the authority to take all legal measures necessary to protect the bank's rights, and conclude the liquidation process. PDIC shall replace depositors in their claims against the bank with an amount equal to reimbursements paid. The reimbursed amounts shall be considered as debts owed to PDIC by the liquidated bank. PDIC claims have seniority over all other creditors and shareholders.

PDIC has full power to take the necessary measures to terminate a bank's operations, settle the bank's debts, collect its dues, take all necessary measures to protect its assets and rights, audit its accounts, and subsequently sell the bank's movable and immovable assets or part of them, or take any other action or measure required to conclude the liquidation proceedings in order to pay back depositors and settle bank debts.

2.8 Reserves Management

PDIC exerts every effort to grow its reserves to ensure the protection of depositors' rights with member banks. Hence, it aims to establish reserves of not less than 3% of total deposits subject to the provisions of its Law. The sources of reserves are membership fees that are collected from member banks on quarterly basis, returns on investments and other returns after deducting all expenses.

Chapter 3:
PDIC's Achievements and Activities in 2020

Achievements and Activities in 2020

PDIC has accomplished numerous achievements and activities during 2020, including the following:

Procedures related to Member Banks

PDIC's response to the Covid-19 crisis was to adjust the premium rate by reducing it twice during the year 2020 from 0.3% to 0.1%, in order to support financial stability in the Palestinian banking sector.

Procedures related to PDIC performance:

PDIC has taken some measures to keep its employees safe from the risk of being affected with Covid -19 virus, as well as informing a business-continuity-plan -team to communicate and coordinate with senior management and PDIC's staff, in addition business, PDIC prepared a business continuity plan that aligned with the Council of Ministers and Palestinian Ministry of Health instructions

Community participation

PDIC's employees donated to the Palestinian national fund; Waqfet Ezz, which was established Palestinian Authority to support the private sector that was affected by the Coronavirus pandemic.

International conferences and meetings:

PDIC participated in several conferences and events, including the annual international conference of the International Association of Deposit Insurers (IADI) through Zoom app. This participation comes to enhance its strategic goals and build an international network with other deposit insurance corporations around the world. In order to promote relations and exchange experiences between corporations, whether they are regional and international corporations, during these conferences there is a discussion about the most important challenges facing deposit insurance corporations, and to benefit from the experiences of other corporations in enhancing their role in financial stability and economic support, as well as access to the latest developments regarding deposit insurance systems. In addition to informing the corporation of the experiences of other corporations regarding challenge during the COVID-19 pandemic.

Raising Public Awareness of the Palestinian Deposit Insurance Corporation

In line with PDIC's effort to comply with IADI's Core Principles, and to achieve its goal of raising the level of public awareness of the deposit insurance system in Palestine PDIC conducted a public awareness campaign during the year 2020, which included all social media, the website, and multiple publications distributed to all bank branches and offices.

Forth: PDIC Strategic Plan

The PDIC has developed its strategic plan that aims to raise public awareness of the deposit insurance system in Palestine, in addition to promoting cooperation with local and international partner institutions to enhance PDIC performance.

The executive management plans aims to achieve PDIC's mission which aims to enhance Palestinian financial stability, increase public confidence in the banking system and provide depositors protection at the member banks.

The strategic plan focuses on integrating Information Technology innovations through implementing new systems that enhance the effectiveness of PDIC processes and data flow from the member banks and the Palestine Monetary Authority (PMA), as this will positively impact the quality of data and periodic reports.

The PDIC pays great attention to improving its human capital as a key factor in achieving strategic goals. As such, the administration has approved a training and capacity building plan for all PDIC staff in various managerial, technical, financial and Information Technology fields.

The PDIC was able to achieve many of its goals in the recent years, which provided motivation for superior performance in the coming years, supported by the hard work of PDIC staff under its Board of Directors supervision

PDIC periodically sets indicators to measure the achievement of its goals, and the processes of review and evaluation of the level of achievement are carried out by the committees at the level of the executive management and the institution's board of directors to address any deviations that may occur, within the methodology of monitoring and evaluation and making the necessary adjustments

In line with PDIC Law which allows collecting risk based membership fees from member banks, and in order to comply with the Core Principles for Effective Deposit Insurance Systems, In 2022, PDIC, in cooperation with the PMA and the Association of Banks in Palestine (ABP), will commence to direct work of a risk-based fee-collection system in line with PMA instructions and internationally approved-standards set by the Basel Committee on Banking Supervision (BCBS).

Medium-Term Key Indicators

Table (8): Medium-Term Key Indicators

Item	Actual		Expected			
	2019	2020	2021	2022	2023	2024
Deposit subject to the provisions of PDIC's law (USD million)	12,725.7	14,482.7	15,758.6	17,147.0	18,657.6	20,301.4
Prompt reimbursement amount (USD million)	4,870.8	5,459.1	5,840.6	6,241.1	6,661.5	7,102.9
PDIC's reserves (USD million)	187.91	212.02	232.31	254.52	278.84	305.45
PDIC's reserves to deposits subject to the provisions of the law (%)	1.477%	1.464%	1.474%	1.484%	1.495%	1.505%
PDIC's reserves to Prompt reimbursement amount (%)	3.9%	3.9%	4.0%	4.1%	4.2%	4.3%
PDIC's reserves to targeted reserve (%)	49.2%	48.8%	49.1%	49.5%	49.8%	50.2%
Prompt reimbursement amount to deposits subject to the provisions of the law (%)	38.3%	37.7%	37.1%	36.4%	35.7%	35.0%

Chapter 4:
Financial Statements

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Independent Auditor's Report
To the Chairman and the Members of the Board of Directors of Palestine Deposit Insurance Corporation

Opinion

We have audited the financial statements of Palestine Deposit Insurance Corporation (PDIC), which comprise the statement of financial position as at December 31, 2020, statement of income and other comprehensive income, statement of changes in equity and statement of cash flows 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 PDIC as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of PDIC in accordance with the International code of Ethics for Professional Accountants' (including International Independence Standards) (IESBA Code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements of PDIC as of December 31, 2019 were audited by another auditor, who issued an unqualified opinion in his report issued on July 16, 2020.

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 IFRSs, 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 PDIC'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 PDIC or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing PDIC'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.

Building a better working world

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 PDIC'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 PDIC'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 PDIC 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.

Ernst & Young – Middle East
License # 206/2012
Abdelkarim M.
Ernst + Young
Abdelkarim Mahmoud
License # 101/2017

Ramallah – Palestine
August 11, 2021

Palestine Deposit Insurance Corporation

STATEMENT OF FINANCIAL POSITION
As at December 31, 2020

	Note	December 31, 2020 U.S. $	December 31, 2019 U.S. $
Assets			
Cash in hand and at banks	3	4,384,843	2,945,857
Balances with Palestine Monetary Authority (PMA)	4	103,625	6,300,875
Subscription fees receivable	5	3,336,344	8,963,217
Financial assets at amortized cost	6	202,209,282	167,360,826
Property, plant and equipment	7	1,223,118	1,185,312
Project in progress	8	-	5,766
Right-of-use Assets	9	118,716	178,530
Intangible assets	10	29,254	33,718
Other assets	11	1,611,903	1,357,921
Total Assets		213,017,085	188,332,022
Liabilities and Equity			
Liabilities			
Employees' end of service provision	12	239,396	168,545
Lease liability	13	140,383	190,454
Other liabilities	14	614,863	63,265
Total liabilities		994,642	422,264
Equity			
Paid-in share capital	1	14,184,814	14,184,814
Islamic banks' reserve	15	27,664,366	23,427,876
Commercial banks' reserve	15	170,173,263	150,297,068
Total equity		212,022,443	187,909,758
Total Liabilities and Equity		213,017,085	188,332,022

Palestine Deposit Insurance Corporation

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2020

	Note	December 31, 2020 U.S. $	December 31, 2019 U.S. $
Revenues			
Subscription fees revenues	16	21,798,290	34,309,575
Interest on deposits and revenues on bonds, net	17	4,491,613	4,000,756
Other revenues		15,850	131,590
		26,305,753	38,441,921
Expenses			
Employees' expenses	18	(839,680)	(697,388)
General and administrative expenses	19	(486,772)	(410,574)
Depreciation and amortization	7,9	(111,076)	(130,370)
Projects in progress disposal related expense	8	(598,556)	-
Finance cost related to lease liability		(11,180)	(13,935)
Currency variances (losses) gains		(6,965)	171,011
Provision for expected credit losses	3,6,20	(138,839)	111,624
		(2,193,068)	(969,632)
Net income for the year		24,112,685	37,472,289
Other comprehensive income items		-	-
Total comprehensive income for year		24,112,685	37,472,289

Palestine Deposit Insurance Corporation

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2020

	Paid-in capital	Islamic banks' reserve	Commercial banks' reserve	Retained earnings	Total equity
2020	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	14,184,814	23,427,876	150,297,068	-	187,909,758
Total comprehensive income for the year	-	-	-	24,112,685	24,112,685
Transferred to the reserves	-	4,236,490	19,876,195	(24,112,685)	-
Balance, end of the year	14,184,814	27,664,366	170,173,263	-	212,022,443

	Paid-in capital	Islamic banks reserve	Commercial banks reserve	Retained earnings	Total equity
2019	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	14,184,814	17,269,580	118,983,075	-	150,437,469
Total comprehensive income for the year	-	-	-	37,472,289	37,472,289
Transferred to the reserves	-	6,158,296	31,313,993	(37,472,289)	-
Balance, end of the year	14,184,814	23,427,876	150,297,068	-	187,909,758

Palestine Deposit Insurance Corporation

STATEMENT OF CASH FLOWS
For the year ended December 31, 2020

	Note	December 31, 2020 U.S. $	December 31, 2019 U.S. $
Operating activities			
Net income for the year		24,112,685	37,472,289
Adjustments for:			
Depreciation and amortization		111,076	130,370
Interest on lease liability		11,180	13,935
Employees' end of service provision		80,294	54,702
Provision for expected credit losses allowance		138,839	(111,624)
Losses on disposal of intangible assets and project in progress		5,766	144
Interest on deposits and revenues on bonds, net		(4,491,612)	(4,130,443)
		19,968,228	33,429,373
Working capital changes:			
Subscription fees receivable		5,626,873	(902,118)
Other assets		(8,252)	(17,854)
Other liabilities		551,598	1,336
Net cash flows from operating activities before employees' end of service paid		26,138,447	32,510,737
Employees' end of service paid		(9,443)	(1,817)
Net cash flows from operating activities		26,129,004	32,508,920
Investment activities			
Purchase of property, plant and equipment and intangible assets		(84,605)	(1,153,406)
Change in financial assets at amortized cost		(34,971,158)	(34,832,822)
Interest on deposits and revenues on bonds received		4,245,883	3,815,719
Net cash flows used in investment activities		(30,809,880)	(32,170,509)
Financing activities			
Payments on lease liability		(61,251)	(60,875)
Net cash flows used in financing activities		(61,251)	(60,875)
(Decrease) increase in cash and cash equivalents		(4,742,127)	277,536
Cash and cash equivalents, beginning of the year		9,283,365	9,005,829
Cash and cash equivalents, end of the year	21	4,541,238	9,283,365

Palestine Deposit Insurance Corporation

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

1. PDIC and its operations

Palestine Deposit Insurance Corporation (PDIC) was established by Decree Law No.(7) Of 2013 (the Law) which was issued on May 29, 2013 by the President of the State of Palestine and the Chairman of the Executive Committee of the Palestine Liberation Organization, and became effective on November 7, 2013.

Equity of PDIC

Equity of PDIC consists of the following:

- The Palestinian government contribution of U.S. $ 20 million or its equivalent to be paid within thirty days from the effective date of the Law. The government paid U.S. $ 2 million of this amount. During year 2017, an amount of U.S. $ 10,384,814 from the contribution of the Ministry of Finance in paid-in share capital was paid by the German Development Bank on behalf of the Ministry of Finance. the unpaid Palestinian government contribution as of December 31, 2020 was $7,615,186
- Non-refundable incorporation fees of U.S. $ 100,000 or equivalent, to be paid by each member during a maximum period of fifteen days from the joining date of PDIC.
- Reserves that are accumulated by PDIC in accordance with the provisions of article No. (20) of the Law, which provides for the formation of reserves to be used in achieving PDIC's objectives to reach a limit of no less than 3% of the total deposits subject to the provisions of the Law.

PDIC funding sources

Sources of funding of PDIC consist of the following:

- Annual subscription fees paid by members of PDIC on a quarterly basis in accordance with the instructions issued for this purpose.
- The return on investment of the fund deposit insurance system.
- Loans obtained by PDIC in accordance with the law
- Grants received by PDIC and approved by the Board of Directors

The objectives of PDIC are to protect customers' deposits held with member banks within certain limits of compensation in order to encourage savings and strengthen confidence in the Palestinian banking system, in addition to increasing public awareness about Palestine Deposit Insurance corporation system.
The number of PDIC staff was (23) and (21) as of December 31, 2020 and December 31, 2019, respectively.
The financial statements of PDIC as of December 31, 2020 have been approved by PDIC's Board of Directors in meeting No. (4/2021) on August 6, 2021.

2. Basis of preparation the financial statements and changes in accounting policies.

2.1 Basis of preparation the financial statements

The financial statements for the year ended December 31, 2020 have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The financial statements have been prepared on a historical cost basis.

The financial statements have been presented in U.S. $ which is the functional currency of PDIC.

2.2 Changes in accounting policies

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2019, except that PDIC applied certain amendments as of January 1, 2020:

Amendments to IFRS (3): "Definition of a Business"

The IASB issued amendments to the definition of "business" in IFRS (3) - "Business acquisitions" to assist enterprises determine whether the group of activities and assets acquired meet the definition of "business" or not. These amendments clarify the minimum business requirements, remove the assessment of whether market participants are able to replace any non-existent business elements, and add guidelines to help entities assess whether the acquired operation is material, determine business definitions and outputs, and add an optional fair value concentration test.

The amendments did not have an impact on PDIC's financial statements.

Amendments to IAS (1) and IAS (8): Definition of "Material"

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments did not have an impact on PDIC's financial statements.

Amendments to IFRS (7) and IFRS (9) Interest Rate Benchmark Reform

Amendments to the interest rate standards of IFRS (9) and IFRS (7) include a number of reliefs that apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if it gives raise to uncertainty about the timing and / or amount of benchmark-based cash flows of the hedged item or hedging instrument. During the period prior to replacing the current interest rate standard with a risk-free rate (RFR). This may lead to uncertainty as to whether the prospective trade is likely and whether the future hedging relationship is effective.

The amendments are effective for financial periods beginning on or after January 1, 2020. The amendment must be done retrospectively. However, any hedging relationships that were previously canceled cannot be reinstated upon the request, and no hedging relationships can be assigned based on past experience.

After completing the first phase, the IASB shifts its focus to matters that may affect financial reporting when replacing the current interest rate standard with a RFR. This is referred to as the second phase of the IASB project.

The amendments did not have an impact PDIC's financial statements, and it is not expected that there will be any future impact on PDIC.

Amendments to IAS (19): amendment, curtailment or settlement of the plan

Amendments to IAS (19) clarify the accounting treatment when the plan's amendment, curtailment, or settlement occurs during the fiscal year. The amendments also clarify that PDIC must first determine any past service cost, profit or loss from settlement, without taking into account the impact of the asset ceiling. This amount is recognized in the statement of income and other comprehensive income.

Then the effect on the asset ceiling is determined after modifying, reducing or settling the plan. Any change, except for amounts, is recognized in the net interest in the statement of income and other comprehensive income.

The amendments did not have an impact PDIC's financial statements.

Amendments to IFRS (16): Covid-19 Related Rent Concessions
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS (16) Leases. The amendments provide relief to lessees from applying IFRS (16) guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This relates to any reduction in lease payments which are originally due on or before 30 June 2021. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

The amendment is applied to annual reporting periods beginning on or after June 1, 2020. These amendments had no material impact on the financial statements of the PDIC.

International Financial Reporting Standards, new interpretations and amendments issued but not effective
The standards and interpretations that are issued but not yet effective, up to the date of issuance of PDIC's financial statements are disclosed below. PDIC intends to adopt these standards, if applicable, when they become effective.

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

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

The amendments will be applied retrospectively on January 1, 2023.

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

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

At the same time, the Board decided to clarify existing guidance in IFRS (3) for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have a material impact on the financial statements of PDIC.

Property and Equipment: Proceeds before Intended Use – Amendments to IAS (16)
In May 2020, the IASB issued Property and Equipment – Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in the statement of income and other comprehensive income.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the financial statements of PDIC.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS (37)
In May 2020, the IASB issued amendments to IAS (37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. PDIC will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the financial statements of PDIC.

IFRS (9) Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS (9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. PDIC applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the financial statements of PDIC.

IBOR reform Phase 2
IBOR reform Phase 2, which will be effective on 1 January 2021, includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR) .

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis .IBOR reform Phase 2 provides temporary reliefs that allow hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require PDIC to amend hedge designations and hedge documentation.

This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, PDIC may elect on a hedge by hedge basis to reset the cumulative fair value change to zero.

PDIC may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided PDIC reasonably expects the RFR to become separately identifiable within 24 months.

For hedges of groups of items, PDIC is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

PDIC did not early adopt the amendments as the uncertainty arising from the amendment does not affect the hedging relationships to the extent that the relationship is required to be terminated.

2.3 Summary of significant accounting policies

Revenues recognition

The effective interest rate method

According to IFRS (9) Interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at Fair value through profit or loss (FVTPL). Interest income on interest bearing financial assets measured at Fair value through other comprehensive income (FVOCI) under IFRS (9). The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

Interest and similar income and expense

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

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

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

Financial Instruments – Initial Recognition

Date of recognition
Financial assets and liabilities are initially recognized on the trade date, i.e., the date that PDIC becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, PDIC accounts for the Day 1 profit or loss, as described below.

Measurement categories of financial assets and liabilities
PDIC classifies its financial assets (Debt Instruments) based on the business model for managing the assets and the asset's contractual terms, measured at amortized cost.

Financial Assets and Liabilities

PDIC only measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

Business model assessment
PDIC determines its business model at the level that best reflects how it manages financial assets to achieve its business objective.

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

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

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

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

Impairment of financial assets

Overview of the ECL principles

PDIC recorded the allowance for expected credit losses for all investments and cash at banks.

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

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

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.

PDIC 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, PDIC groups its financial assets into stage (1), stage (2) and stage (3), as described below:

Stage (1)	When financial assets that its credit risk haven't increased dramatically since initial recognition, PDIC recognizes an allowance based on 12mECLs.
Stage (2)	When a financial asset has shown a significant increase in credit risk since origination, PDIC records an allowance for the LTECLs.
Stage (3)	Financial assets considered credit impaired. The v records an allowance for the LTECLs.

For financial assets for which PDIC 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

PDIC 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:

The Probability of Default (PD)	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may happen at a certain time over the assessed period.
The Exposure at Default (EAD)	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on investments, and accrued interest from missed payments.

The Loss Given Default (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, PDIC considers three scenarios (a base case, best and worst). Each of these is associated with different percentages of PDs, EADs and LGDs.

The mechanics of the ECL method are summarized below:

Stage (1)	The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. PDIC calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage (2)	When a financial asset has shown a significant increase in credit risk since origination, PDIC 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, PDIC recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage (2) assets, with the PD set at 100% and the PD is larger than stage (1) and 2.

Forward looking information

In its ECL model, PDIC 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.

Lease contracts

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

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

Right-of-use assets
PDIC 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 PDIC is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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

Short-term leases and leases of low-value assets
PDIC 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.

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

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

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

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 interest.

PDIC uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available.

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, PDIC determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

For the purpose of disclosing the fair value, PDIC 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.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any, such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other costs are recognized in the statement of income and other comprehensive income as incurred. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful life (Years)
Leasehold improvements	7
Equipment	5
Furniture and fixture	5
Motor vehicles	5
Computers	2-5

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 statement of income and other comprehensive income 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.

Impairment of non-financial assets

PDIC assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, PDIC makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiplies quoted share prices for publicly traded companies or other available fair value indicators.

Intangible assets

Other intangible assets acquired through mergers are stated at fair value at the date of acquisition, while other intangible assets (not acquired through mergers) are recorded at cost.

Intangible assets are to be classified on the basis of either definite or indefinite useful life. Intangible assets with definite useful economic lives are amortized over their useful lives using the straight-line method and recorded as an expense in the statement of income and other comprehensive income. Intangible assets with indefinite lives are reviewed in statement income for impairment as of the financial statements date, and impairment loss is recorded in the statement of income and other comprehensive income.

Intangible assets resulting from the PDIC’s operations are not capitalized. They are rather recorded in the statement of income and other comprehensive income in the same period.

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

Intangible assets with a finite life are recorded at cost less annual amortization. The intangible assets include computer software and programs. PDIC management estimates the useful life so that it is amortized in a straight-line method over the expected useful life which ranges from three to five years.

Held-to-maturity financial assets

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which PDIC has the intention and ability to hold-to-maturity. Held-to-maturity investments are initially recognized at fair value plus acquisition costs. Subsequently, they are stated at amortized cost, less any impairment losses, using the effective interest rate method.

Projects in progress

The projects in progress represent the costs of constructing PDIC headquarters up to the date of the financial statements. Upon completion of the execution of each project it will be transferred to property and equipment or intangible assets.

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

Offsetting

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

Provisions

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

Employees' end of service provision

Provision is made for employees' end of service indemnity is estimated in accordance with the Labor Law effective in Palestine and PDIC's employees' affairs manual.

Foreign currencies

Transactions in foreign currencies during the year are recorded at the exchange rates prevailing on the date of the transactions.

Monetary assets and liabilities are converted at average foreign exchange rates prevailing at the date of the statement of financial position.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are reconverted into U.S. $ on the date that the fair value was determined.

Gains and losses arising from converting foreign currencies into US dollars are recorded in the statement of income and other comprehensive income.

Cash and cash equivalents

It is cash and cash balances that mature within a period of three months. It includes cash in hand and at banks and balances with Palestine Monetary Authority that mature within a period of three months.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as changes in fair value that appear in equity. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore, actual results may differ from estimates as a result of changes arising from the conditions and circumstances of those estimates in the future.

Management believes that estimates in the financial statements are reasonable and are as follows:

- The management re-estimates the useful lives of tangible and intangible assets periodically for the purpose of calculating annual depreciation and amortization based on the general condition of those assets and estimates of expected useful life in the future, and the impairment loss (if any) is recorded in the statement of income and other comprehensive income.
- The financial year was charged with its end of service provision expense in accordance with the Palestinian Labor Law and in line with International Accounting Standards.
- Lease liability and Right-of-use Assets
- The fair value of the financial instruments.

Provision for expected credit losses allowance (ECL)
The provision for ECL is reviewed in accordance with the principles and IFRS (9). The determination of provision for ECL expected from management requires judgments and judgments to be made to estimate the amounts and timing of future cash flows, as well as to estimate any significant increase in the credit risk of financial assets after initial recognition, taking into consideration future measurement information for ECL.

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

- Deposits at Financial Institutions and PMA: individual basis at deposit / PDIC level
- Debt instruments measured at amortized cost (bonds): individual basis at instrument level.

Inputs, assumptions and techniques used for ECL calculation – IFRS (9) methodology
Key concepts in IFRS (9) that have the most significant impact and require a high level of judgment, as considered by PDIC 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, PDIC 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 PDIC's existing risk management processes.

The assessment of significant increases in credit risk will be performed quarterly for each individual exposure based on the following 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) Limits are set to measure the significant increase in credit risk based on the change in the risk of default of the financial instrument compared to its inception date.
2) 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, PDIC has adopted a 30-day period.
3) Two notches decrease in the financial assets rating.

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 IFRS (9) will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS (39).

- Macroeconomic factors, forward looking information 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.
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.

3. Cash in hand and at banks

	2020	2019
	U.S. $	U.S. $
Cash in hand	556	350
Current and demand accounts	851,019	588,170
Deposits maturing within 3 months	3,586,038	2,393,970
	4,437,613	2,982,490
Less: provision for expected credit losses	(52,770)	(36,633)
	4,384,843	2,945,857

Following is the movement on gross carrying amounts of cash at banks:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	2,982,140	-	-	2,982,140
Net change during the year	1,454,917	-	-	1,454,917
Balance as of December 31, 2020	4,437,057	-	-	4,437,057

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019	2,778,272	-	-	2,778,272
Net change during the year	203,868	-	-	203,868
Balance as of December 31, 2019	2,982,140	-	-	2,982,140

Following is the movement on the provision for expected credit losses (ECL) for cash at banks:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	36,633	-	-	36,633
Net ECL for the year	16,137	-	-	16,137
Balance as of December 31,2020	52,770	-	-	52,770

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019	36,324	-	-	36,324
Net ECL for the year	309	-	-	309
Balance as of December 31, 2019	36,633	-	-	36,633

4. Balances with Palestine Monetary Authority (PMA)

	2020	2019
	U.S. $	U.S. $
Current and demand accounts	103,625	1,300,875
Deposits maturing within 3 months	-	5,000,000
	103,625	6,300,875

The average annual interest rate on Deposits maturing within 3 months was 1.55% for the year ended December 31, 2019.

5. Subscription fees receivable

This item represents the subscription fees accrued and receivables from members for the fourth quarter of 2020. Subscription fees receivable amounted to U.S. $ 3,336,344 and U.S. $ 8,963,217 as of December 31, 2020 and December 31, 2019, respectively.

6. Financial assets at amortized cost

	2020	2019
	U.S. $	U.S. $
Quoted bonds and Islamic Sukuk in foreign markets*	191,991,760	162,021,207
Treasury bonds - Central Bank of Jordan**	5,501,323	5,500,718
Unquoted Bonds***	5,000,000	-
	202,493,083	167,521,925
Less: provision for expected credit losses	(283,801)	(161,099)
	202,209,282	167,360,826

* This item represents PDIC's investment in Foreign bonds that mature within one to seven years, with an interest rate from 0.404 % to 6.125 %.

** This item represents PDIC's investment in bonds issued by the Central Bank of Jordan that mature within one to five years, with an interest rate from 3.95 % to 4.95%.

*** This item represents PDIC's investment in bonds issued by a local company. The bonds mature in five years, with an interest rate of 4.5 %.

Following is the movement of the gross carrying amounts of financial assets at amortized cost:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	162,021,207	5,500,718	-	167,521,925
Transferred to stage (1)	5,500,718	(5,500,718)	-	-
Net change during the year	34,971,158	-	-	34,971,158
Balance as of December 31, 2020	202,493,083	-	-	202,493,083

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019	125,774,580	6,914,524	-	132,689,104
Net change during the year	36,246,627	(1,413,806)	-	34,832,821
Balance as of December 31, 2020	162,021,207	5,500,718	-	167,521,925

Following is the movement on the provision for expected credit losses (ECL) for financial assets at amortized cost:

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2020	-	161,099	-	161,099
Transferred to stage (1)	161,099	(161,099)	-	-
Net ECL during the year	122,702	-	-	122,702
Balance as of December 31, 2020	283,801	-	-	283,801

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balance as of January 1, 2019	-	273,032	-	273,032
Net ECL during the year	-	(111,933)	-	(111,933)
Balance as of December 31, 2019	-	161,099	-	161,099

7. Property, plant and equipment

	Land*	Leasehold improvements	Equipment	Furniture and fixture	Motor vehicles	Computers	Total
December 31, 2020	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	1,113,272	130,358	34,721	67,341	38,249	61,469	1,445,410
Additions	-	10,284	18,391	4,360	-	46,439	79,474
Balance, end of year	1,113,272	140,642	53,112	71,701	38,249	107,908	1,524,884
Accumulated depreciation:							
Balance, beginning of the year	-	91,918	32,699	60,825	20,855	53,801	260,098
Depreciation for the year	-	18,863	2,328	3,552	7,670	9,255	41,668
Balance, end of year	-	110,781	35,027	64,377	28,525	63,056	301,766
Book value at December 31, 2020	1,113,272	29,861	18,085	7,324	9,724	44,852	1,223,118
Book value at December 31, 2019	1,113,272	38,440	2,022	6,516	17,394	7,668	1,185,312

Property, plant and equipment include U.S. $ 141,793 of fully depreciated assets that are still operating as of December 31, 2020.

* The fair value of the land amounted to U.S. $ 1,093,885. Subsequent to the date of the financial statements, PDIC Board of Directors decided to reclassify this item to investments in properties following to the decision of the Palestinian Council of Ministers related to the project of constructing PDIC's new headquarters (Note 8).

8. Projects in progress

This item includes construction of PDIC's new headquarter. Following is the movement on projects in progress:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	5,766	-
Additions	73,635	5,766
Disposals (Note 19)	(79,401)	-
Balance, end of the year	-	5,766

Subsequent to the date of the financial statements, the Palestinian Council of Ministers, in its meeting held on March 1, 2021, issued decision No. "م.و/م.ا/18/98/02" for the year 2021 to transfer the headquarter of PDIC and its employees to the headquarter of the Palestine Monetary Authority and to depart the construction project of the headquarter of PDIC.

Accordingly, the project was disposed, and the book value of it was written off as of December 31, 2020 at an amount of $79,401. The total costs related to projects in progress disposal amounted to $598,556 as of December 31, 2020.

9. Right-of-use Assets

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	178,530	247,477
Amortization during the year	(59,814)	(68,947)
Balance, end of the year	118,716	178,530

10. Intangible assets

This item represents programs and software systems, following are the details of the movement during 2020 and 2019:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	33,718	16,349
Additions	5,129	29,083
Amortization	(9,593)	(11,570)
Disposals	-	(144)
Balance, end of the year	29,254	33,718

11. Other Assets

	2020	2019
	U.S. $	U.S. $
Accrued interest on bonds	1,489,758	1,240,262
Interest paid to bondholders	93,083	102,107
Prepaid expenses	11,055	9,264
Accrued interest on deposits	2,394	6,160
Others	15,613	128
	1,611,903	1,357,921

12. Employees' end of service provision

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	168,545	115,660
Additions during the year	80,294	54,702
Paid during the year	(9,443)	(1,817)
Balance, end of the year	239,396	168,545

Provision is made for employees' end of service indemnity in accordance with the Labor Law effective in Palestine and PDIC's personnel policy.

13. Lease liability

The table below shows the book value of lease liability and the movement during 2020 and 2019:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	190,454	237,394
Financing costs	11,180	13,935
Payments	(61,251)	(60,875)
Balance, end of the year	140,383	190,454

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 PDIC will certainly implement and the termination amount for the rent contract, if PDIC intends to implement the termination option as per the terms of the contracts .

The amount of the lease expense for short-term contracts and lease contracts of low-value assets that were recognized in the statement of income and other comprehensive income for the year ended December 31, 2020 amounted to U.S. $ 1,350.

The liabilities related to rent contracts are deducted using a discount rate of 5.87 % as of December 31,2020 and 2019.

14. Other liabilities

	2020	2019
	U.S. $	U.S. $
Provision for vacations	53,980	42,341
Due to suppliers and accrued expenses	560,883	20,924
	614,863	63,265

15. Reserves

According to the article No. (20) of PDIC's Law, PDIC must accumulate reserves until they reach at least 3% of total deposits that are subject to the provisions of this law. This reserve will be used to achieve PDIC's objectives.

Reserves at PDIC are formed in two forms; Islamic reserve and traditional (commercial) reserve so that the net income for the period is distributed on Islamic and traditional reserves on a pro-rata basis, based on the subscription fees of each stream (Islamic and traditional) at the end of each financial reporting period.

16. Subscription fees revenues

This item represents banks' subscription fees paid to PDIC, as banks are required to designate annual subscription fees, starting from 2014, to PDIC at a rate of 0.3% of the total deposits subject to this law. On December 1, 2019, Circular No. (03/2019) was issued by PDIC regarding reducing the minimum subscription fee to (0.2% - 0.8%), whereas of January 1, 2020, the subscription fee rate became 0.2% of the average total deposits instead of 0.3% of the average total deposits. On October 27, 2020, PDIC issued circular No. (2/2020) regarding reducing the minimum subscription fee to (0.1%-0.8%), and as at January 1, 2020 the subscription fee rate became 0.1% of the average total deposit.

Following are details of subscription fee revenue:

	2020	2019
	U.S. $	U.S. $
Commercial banks subscription fees	17,968,429	28,671,048
Islamic banks subscription fees	3,829,861	5,638,527
	21,798,290	34,309,575

17. Interest on deposits and revenues on bonds, net

	2020	2019
	U.S. $	U.S. $
Interest revenue from commercial financial assets at amortized cost	4,492,195	3,450,451
Interest revenue from Islamic financial assets at amortized cost	818,533	578,684
Investments income- time deposits with PMA	1,722	114,125
Investments income - time deposits with banks	89,396	77,660
Amortization of bonds premium or discount, net	(910,233)	(220,164)
	4,491,613	4,000,756

18. Employees' expenses

	2020	2019
	U.S. $	U.S. $
Salaries and wages	602,322	458,380
Provision of employees' end of service	80,294	54,702
PDIC's contribution to provident fund	60,743	47,048
Employees transportation	47,556	43,406
Health insurance expenses	21,228	18,272
Accrued vacations	12,202	7,104
Training, conferences and meetings	5,927	55,837
Telecommunication	4,889	4,315
Fuel	1,985	2,911
Bonuses for employees	-	2,326
Others	2,534	3,087
	839,680	697,388

19. General and administrative expenses

	2020	2019
	U.S. $	U.S. $
Brokerage firms' commissions	262,797	232,190
Fees and subscriptions	56,950	53,499
Board of Directors remunerations	40,000	25,400
Advertising and marketing expenses	34,564	10,190
Consultations and legal fees	22,036	24,610
Electricity and water	14,196	13,538
Security and cleaning	13,913	9,361
Telephone, internet and mail	13,374	7,436
Office supplies	7,131	4,383
Annual reports and work plans	4,623	3,833
Maintenance	3,185	4,023
Commissions and bank interests	2,288	2,633
Fuel	1,789	1,863
Hospitality	1,762	3,440
Vehicle expenses	1,363	1,348
Stationery and printings	1,301	2,959
General insurance	277	400
Travel and accommodation of the Board of Directors	-	4,242
Building fees	-	2,167
Others	5,223	3,059
	486,772	410,574

20. Provision for expected credit losses

	2020			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash at banks (Note 3)	16,137	-	-	16,137
Financial assets at amortized cost (Note 6)	122,702	-	-	122,702
	138,839	-	-	138,839

	2019			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Cash at banks (Note 3)	309	-	-	309
Financial assets at amortized cost (Note 6)	-	(111,933)	-	(111,933)
	309	(111,933)	-	(111,624)

21. Cash and cash equivalents

Cash and cash equivalents appearing in the statement of cash flows consist of the amounts shown in the statement of financial position as follows:

	2020	2019
	U.S. $	U.S. $
Cash in hand and at banks	4,437,613	2,982,490
Balances with Palestine Monetary Authority (PMA)	103,625	6,300,875
	4,541,238	9,283,365

22. Related party transactions

Related parties represent directors and key management personnel of PDIC.
PDIC's board of directors approves pricing policies and terms of these transactions.

Balances with related parties included in the statement of financial position are as follows:

	Nature of Relationship	2020	2019
		U.S. $	U.S. $
Balances with Palestine Monetary Authority (PMA)	Board of directors	103,625	6,300,875

Transactions with related parties included in the statement of income and other comprehensive income are as follows:

	Nature of Relationship	2020	2019
		U.S. $	U.S. $
Interest on deposit at PMA	Board of directors	1,722	114,125
Board of directors' remunerations and expenses	Board of directors	40,000	25,400
key management salaries and benefits:			
Short term benefits		138,634	162,186
End of service provision		14,608	13,919

23. Fair value measurement

The following table provides the fair value measurement hierarchy of PDIC's assets as at December 31, 2020:

	Date of Measurement	Total U.S. $	Fair value Measurement using Quoted Prices in active markets (Level 1) U.S. $	Significant observable inputs (Level2) U.S. $	Significant-non-observable inputs (Level3) U.S. $
Financial assets measured at fair value:					
Financial assets at amortized cost (Note 6):					
	December 31, 2020	207,117,692	202,117,692	-	5,000,000

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2019:

	Date of Measurement	Total U.S. $	Fair value Measurement using Quoted Prices in active markets (Level 1) U.S. $	Significant observable inputs (Level2) U.S. $	Significant-non-observable inputs (Level3) U.S. $
Financial assets measured at fair value:					
Financial assets at amortized cost (Note 6):					
Quoted	December 31, 2019	168,085,480	168,085,480	-	-

24. Fair values of financial instruments

Set out below a comparison by class of the carrying amounts and fair values of PDIC's financial instruments carried in the financial statements:

	Carrying value		Fair value	
	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash in hand and at banks	4,384,843	2,945,857	4,384,843	2,945,857
Balances with Palestine Monetary Authority (PMA)	103,625	6,300,875	103,625	6,300,875
Subscription fees receivables	3,336,344	8,963,217	3,336,344	8,963,217
Financial assets at amortized cost	202,209,282	167,360,826	207,117,692	168,085,480
Other financial assets	1,492,152	1,246,422	1,492,152	1,246,422
	211,526,246	186,817,197	216,434,656	187,541,851
Financial liabilities				
Lease liability	140,383	190,454	140,383	190,454
Other financial liabilities	560,883	20,924	560,883	20,924
	701,266	211,378	701,266	211,378

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

The fair values of cash in hand and at banks, balances and deposits at Palestine Monetary Authority, subscription fees receivables, other financial assets, lease liability and other financial liabilities are very close to their book values because these instruments have short-term repayment or collection periods.

- The fair value of quoted financial assets at amortized cost in financial markets is determined by reference to quoted prices at the date of the financial statements.
- The fair values of unquoted financial assets at amortized cost in financial markets that don't have market value is measured at cost after deducting the impairment losses (if any) due to the inability to determine its fair value reliably.

25. Other Matters

During 2017, PDIC signed an agreement with the German Development Bank (the bank) for an amount of 10 million Euro, whereby the Bank paid an amount of 9,050,000 Euro (equivalent to U.S. $ 10,384,814) of the grant on behalf of the Ministry of Finance to cover its contribution in PDIC 's paid-in capital. The bank will also provide technical support to PDIC with the remaining balance of the grant in the amount of 950,000 Euro (equivalent to U.S. $ 1,090,119), where a separate agreement has been signed with a consulting company in this regard. The amount transferred to the consulting firm amounted to 366,969 Euro and 222,997 EUR (equivalent to U.S. $ 421,094 and U.S. $ 255,887) from the grant as of December 31, 2020 and December 31, 2019, respectively, and the implementation of the agreement is expected to be completed during 2021.

26. Risk management

The main risks arising from PDIC's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk. PDIC's Board of Directors reviews and approves policies for managing these risks which are summarized below:

Credit risks

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. With respect to credit risk arising from the financial assets, including of balances at banks, balances and deposits at Palestine Monetary Authority, subscription fees receivables, financial assets at amortized cost and other financial assets, PDIC's exposure to credit risk arises from default of the counterparty, which is equal to the carrying amount of these financial assets.

Liquidity risk

PDIC manages liquidity risk by providing cash to meet its potential obligations and to finance its operating and investment activities. Except for the Employees' end of service provision. Most of PDIC financial liabilities are due within three months from the date of the financial statements.

The following table depicts the analysis of assets and liabilities according to their maturities as of December 31, 2020

	December 31, 2020			
	Less than a year	More than a year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash in hand and at banks	4,384,843	-	-	4,384,843
Balances with Palestine Monetary Authority (PMA)	103,625	-	-	103,625
Subscription fees receivable	3,336,344	-	-	3,336,344
Financial assets at amortized cost	56,887,530	145,321,752	-	202,209,282
Property, plant and equipment	-	-	1,223,118	1,223,118
Right-of-use Assets	-	-	118,716	118,716
Intangible assets	-	-	29,254	29,254
Other financial assets	1,611,903	-	-	1,611,903
Total Assets	66,324,245	145,321,752	1,371,088	213,017,085
Liabilities				
Employees' end of service provision	-	239,396	-	239,396
Lease liability	35,096	105,287	-	140,383
Other financial liabilities	614,863	-	-	614,863
Total liabilities	649,959	344,683	-	994,642
Equity				
Paid-in share capital	-	-	14,184,814	14,184,814
Islamic banks' reserve	-	-	27,664,366	27,664,366
Commercial banks' reserve	-	-	170,173,263	170,173,263
Total equity	-	-	212,022,443	212,022,443
Total liabilities and equity	649,959	344,683	212,022,443	213,017,085
Maturity gap	65,674,286	144,977,069	(210,651,355)	-
Cumulative gap	65,674,286	210,651,355	-	-

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. $ exchange rate against the foreign currency , with all other variables held constant, The effect of decreases in the foreign currency rate is expected to be equal and opposite to the effect of the increase shown below:

	Increase in currency rate	Effect on statement of income and other comprehensive income
	(Basis points)	U.S. $
2020		
Israeli Shekel	10	127,528

	Increase in currency rate	Effect on statement of income and other comprehensive income
2019	(Basis points)	U.S. $
Israeli Shekel	10	329,515

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates on financial assets and financial liabilities bearing floating interest rates as on December 31, 2020. with all other variables held constant, the effect of decreases in the interest rates is expected to be equal and opposite to the effect of the increase shown below:

	2020		2019	
Currency	Increases in interest rate (Basis points)	Effect on statement of income and other comprehensive income	Increases in interest rate (Basis points)	Effect on statement of income and other comprehensive income
U.S $	10	79,708	10	286,787

27. Concentration of risk in geographical area

PDIC 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.

28. Capital management

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

PDIC manages its capital structure and makes adjustments to it in the light of changes in business conditions. The capital structure comprises PDIC’s Paid-in capital and reserves which amounted to U.S. $ 212,012,841 and U.S. $ 187,909,758 as at December 31, 2020 and 2019, respectively.

29. Risk of the impact of the Coronavirus (COVID-19)

Within the continued impact of the Coronavirus (Covid-19) on the global economy and various business sectors and the accompanying restrictions and procedures imposed by the Palestinian government, neighboring countries and the rest of the world, some of PDIC’s investments and operational activities have been affected by these events, which have had a negative impact on PDIC 's business results for the year compared to the previous year.

The extent and impact of these global and local conditions remains unclear and depends on future developments that are not predictable now, and therefore PDIC has not been able to estimate the extent of the potential impact as of the date of issuing the financial statements, although these changes may have an impact on future financial results, investments, cash flows and PDIC 's financial position.

30. Subsequent events

Subsequent to the date of the financial statements, the Palestinian Council of Ministers, in its meeting held on March 1, 2021, issued decision No. “م.و/م.ا/18/98/02” for the year 2021 to transfer the headquarter of PDIC and its employees to the headquarter of the Palestine Monetary Authority and to depart the construction project of the headquarter of the PDIC.