المؤسسة الفلسطينية لضمان الودائع

PALESTINE DEPOSIT INSURANCE CORPORATION

# Annual Report
# 2021

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, it's 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 92 members,9 associates and 17 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 law No. (7) Of 2013, on May 29th , 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

**The Governor of Palestine Monetary Authority and Chairman of the Board of Directors of Palestine Deposit Insurance Corporation**

Dr.Feras Milhem

Feras Milhem is a PhD. holder of Law from the Vrije Universities Brussel in 2004, he got his master's degree from Birzeit University in 2000 at Commercial Law. He got his first degree in law from Fez-Morocco.

He has gained in-depth experience in his field; he has served as the team leader of the Rule of Law (Justice and Security) in the International Quartet office for more than seven years, was in charge of the Economic Relationship File on fiscal leakages between the Palestinian Authority and Israel, was in charge of the Palestine Monetary Authority's Ombudsperson Office for four years, and served for two-times as a member in the PMA's Board of Directors before he was appointed as the PMA Governor.

For nearly eighteen years, Dr.Milhem worked as a researcher and consultant on several legislative and judicial projects. Dr.Milhem was a lecturer at Birzeit University Law School from 2004 to 2009, during that time he served as assistant dean of the faculty and was an adviser to the Palestinian Minister of Interior from 2007 to 2009. He has also contributed to several studies, including with the MAS Institute related to economic research.

**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 in some 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 a 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 Aid, 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 of Trustees member at An-Najah National University and a board member at 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 (MOE). 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.

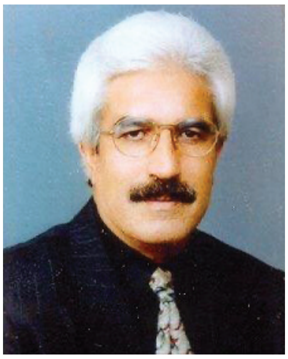
Mr. El Masri holds a graduate degree in accounting from Al Najah University (1995).

**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)



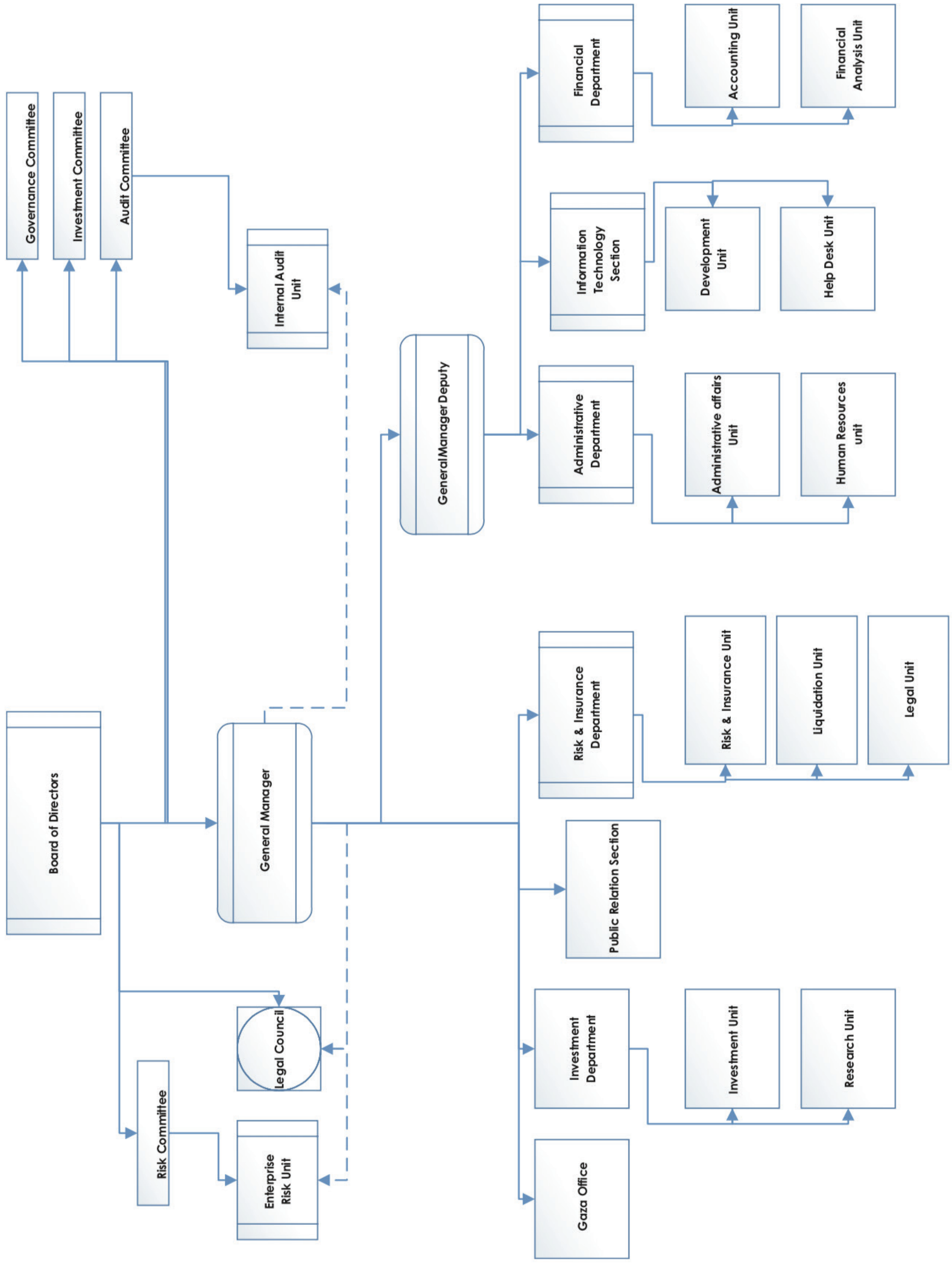
**Dr. Ghazi Musleh**
Board member

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 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 Dr. Feras Milhem - Chairman.
- Mr. Ahmed Al-Sabah
- Dr. Adel Zagha
- Mr. Loay Hawash- General Manger

**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**

- Mr. Loay Hawash- General Manager / 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 members of the Board of Directors of the Palestine Deposit Insurance Corporation and myself, to meet you again by presenting the eighth annual report for the year 2021 of the Palestine Deposit Insurance Corporation. I am truly proud of the active banking protection network provided by the PDIC to insure the depositors' funds.

The PDIC assumes a remarkable presence at the local and international levels although it is a relatively new corporation, which enabled it to exchange the experiences and live up to the latest developments in the area of protecting the depositors' funds, which contributes to boosting the financial stability and the confidence in the Palestinian banking sector, and contributing to maintain its stability. I would like to emphasize that the PDIC's board of directors and executive management are developing its functioning in line with the international standards, and invest the PDIC's funds in a diverse portfolio that ensures sustainability and growth in a way that realizes our mission protecting the depositors' funds.

I take this opportunity to reaffirm the resilience of Palestine's banking sector and the depositors' fund insurance mechanisms in place. At the end of 2021, Palestine's banking sector performance indicators showed positive results; the total deposits with the licensed banks rose in the end of 2021 by USD 1,380.7 million, reflecting an increase of 9.12 percent compared to its level recorded at the end of 2020, as they reached around USD 16,519 million. Total assets with the licensed banks rose by USD 1,786.7 million, reflecting an increase of 9 percent compared to its level recorded in the end of 2020, as they reached around USD 21,672.9 million. The Net profits after tax made by the banking sector at the end of 2021 reached USD 177.4 million, compared to USD 100.6 million at the end of 2020, reflecting an increase of USD 76.8 million, which represents 76.3 percent. Further, the outstanding net credit facilities balance granted by the licensed banks at the end of 2021 rose by USD 610.1 million, representing 6.3 percent compared to its level recorded at the end of 2020, as it reached around USD 10,321.5 million. The banks continued maintaining higher capital adequacy ratios compared to the ratio specified by the Palestine Monetary Authority, as well as the international rates, as such ratios reached 16.2 percent at the end of 2021. Further, the ratio of provision coverage to non-performing facilities for the banking sector rose to 94.7 percent at the end of 2021, compared to 86.1 percent recorded at the end of 2020, and the non-performing facilities to total facilities for the banking sector fell by 1.2 percent, as they reached around 4.15 percent in 2021, compared to 4.24 percent per year.

Finally, it gives me great honor to invite you to review the 8th annual report of the PDIC, and I am hopeful that the year 2022 will lead the way forward to the development of a strong national economy, and I assert my faith in the sound and robust Palestinian banking sector.

**Chairman**

فراس ملحم

**Message from the General Manager**

It gives me great honor to present the new edition of the annual report for the year 2021 of the Palestine Deposit Insurance Corporation, which sheds light on the key activities and achievements made by the PDIC in the past year, in line with its pursuit to achieve its vision and objectives protecting depositors fund and boosting the financial stability and prudent governance in a challenging work environment.

The PDIC started a comprehensive review of its governance framework, out of its commitment to continuous development and upgrade in performing its mandate in order to assume a leading position in the area of deposit insurance and bank liquidation at the regional and international levels.

Further, we will work on formulating and implementing a future strategic vision of the PDIC in order to elevate it to an outstanding level of efficiency and professionalism with regard to deposit insurance in Palestine, and we will focus on the optimum investment opportunities with tolerable risks, taking into account the regional and international crises.

We assert that the PDIC is always working on reinforcing the integrative role between the PDIC and the Palestine Monetary Authority towards contributing to the financial and banking stability, and working together to improve the public confidence in the Palestinian banking sector.

In 2021, the PDIC continued working on expanding the scope of its mandate, and it introduced amendments to the PDIC Law No. 15 of 2021 on its Basic Law No. (7) of 2013, which grants the PDIC the power to finance the banking resolution approved by the Palestine Monetary Authority -being the authority that has the jurisdiction to carry out banking resolution- from its own funds, for any member-bank that suffers from disruptions or material problems that affect their financial position and threaten their breakdown. Further, the PDIC and the Palestine Monetary Authority set the necessary policies and measures to undertake banking reforms and handle the banks which are collapsed or with a high potential for collapse.

On the other hand, the indicators related to deposits and depositors improved; the clients' deposits subject to the provisions of the PDIC Law reached about USD 15,667.3 million at the end of 2021, compared to USD 14,482.7 million at the end of 2020, with an increase of 8.18 percent, noting that such deposits belong to around 2,171 thousand depositors, with an average deposit value of USD 7,218 for 2021, compared to 1,797 thousand depositors and an average deposit value of USD 8,060 at the end of 2020, while the percentage of depositors whose deposits are fully insured at a coverage limit of twenty thousand dollars, or its equivalent in other currencies, reached 93.67 percent of total depositors whose deposits are subject to the provisions of the Law at the end of 2021.

PDIC's total revenues from member banks fees and returns amounted to approximately USD 19.01 million at the end of 2021, of which the Islamic banks contribution was USD 3.5 million. In parallel, the PDIC managed to enhance and reinforce its reserves to rise to approximately USD 229,4 million at the end of 2021, reflecting an increase of 8.20 percent compared to figure recorded at the end of the previous year.

The PDIC signed several memorandum of understanding that would strengthen its international relations with the deposit insurance corporations worldwide, and enable it to fulfil its responsibilities and exercise the functions assigned to it more effectively. The memorandum of understanding and mutual cooperation with the Korea Deposit Insurance Corporation, which was signed in October

2017, was re-activated in August 2021. Further, the PDIC signed a mutual cooperation agreement with the Indonesia Deposit Insurance Corporation in June 2021.

Finally, I would like to thank the Chairman and Members of the PDIC’s Board of Directors for their support, and all of its employees, the members of the financial safety net “Palestine Monetary Authority and the Ministry of Finance” and all the banks members of the PDIC and the Association of Banks in Palestine (ABP). We emphasize that we will continue improving our work locally and internationally in line with the best modern international practices in this sector, and will realize our mission and objectives towards the stability of the Palestinian banking business.

**General Manager**

# 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

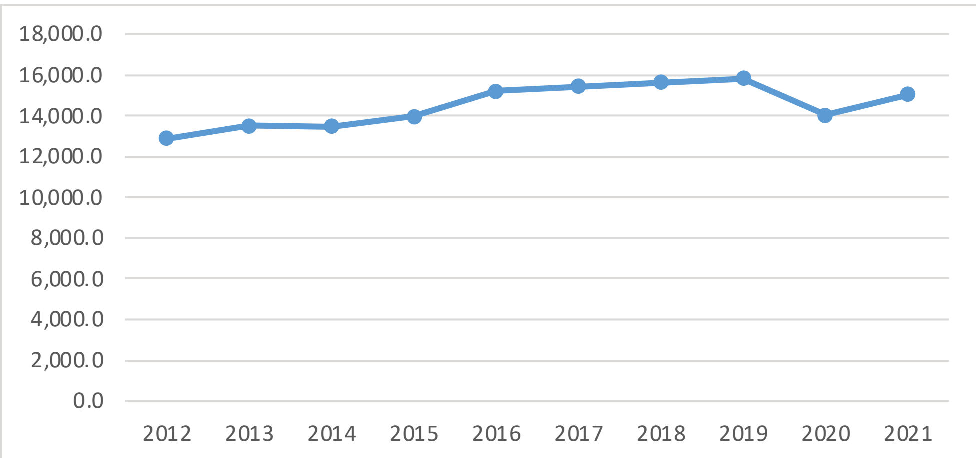
Unlike other economies, the Palestinian economy is characterized by being severely restricted by the Israeli occupation, which deprives it of a large part (if not the largest part) of its national resources, limits the movement of people, the flow of goods and the provision of services, in order to increase 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 2021, 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 increased by 7% in 2021 compare to 2020, to reach about 15,027 million USD, due to the boost in the Agriculture sector, Transportations and Storage sector, Information and Communications sector.

**Figure 1: GDP in Palestine (2012 – 2021)**

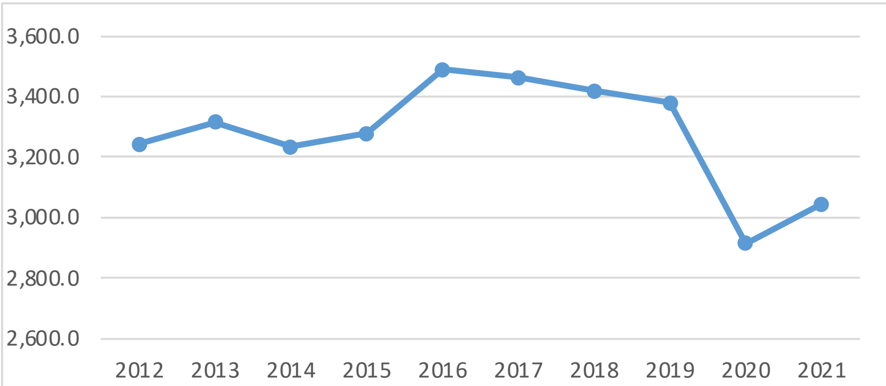



1 Preliminary data issued by Palestine Central Bureau of Statistics-base year- 2015.

## 1.2 GDP Per Capita

GDP per capita is used as a measure of the standard of living in the economy. GDP per capita increased by 4.2 % compared to 2021, to reach 3,045.3USD.

**Figure 2: GDP per Capita in Palestine (2012 - 2021)**

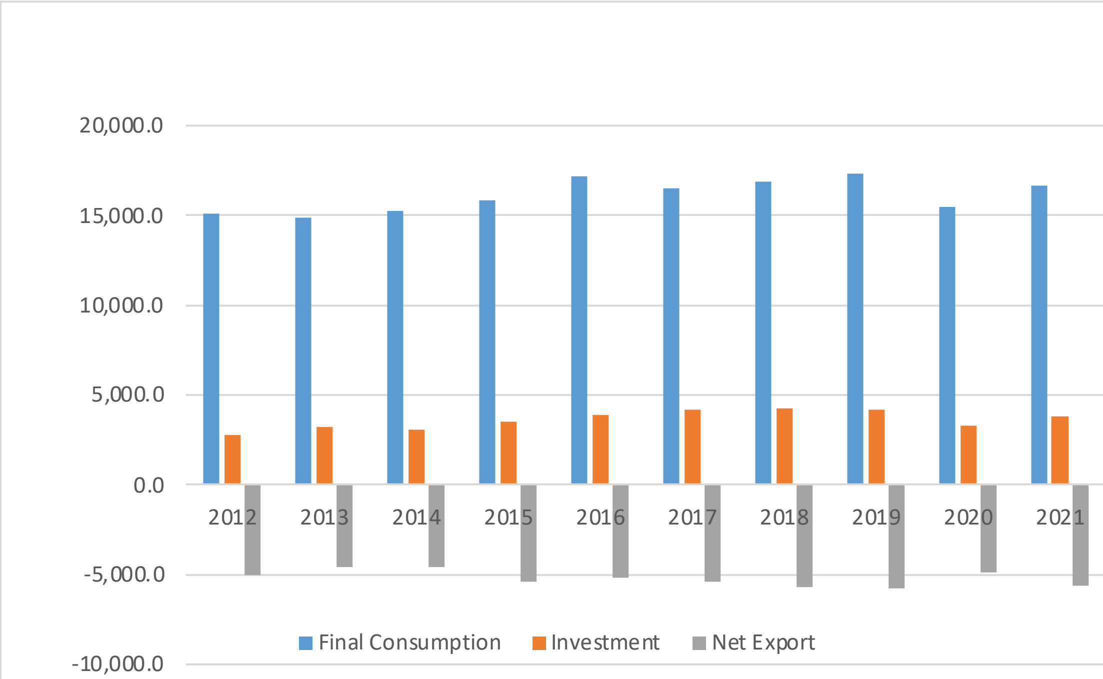



## 1.3 Aggregate Demand

The major components of aggregate demand (consumer spending, government spending, investment and net exports) grew at varying rates during 2021 in all its components. The final consumer spending increased by 7.2% compared to the previous year, and the investment growth rate increased by 14.2 %.

With regard to the trade deficit, exports raised by 18 %, and imports increased by 16 % compared to the previous year.

**Figure 3: Aggregate Demand in Palestine (2012 - 2021)**




## 1.4 Labor Market Indicators

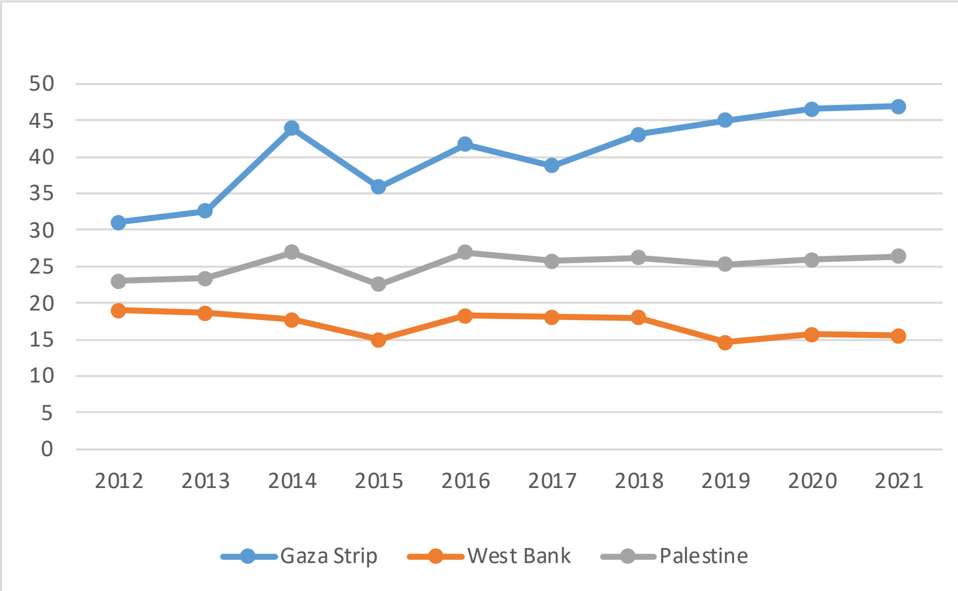
The unemployment rate among labor force participants (15 Years old and above) in Palestine reached 26% in 2021, and the total labor underutilization reached 34%.

There is still a large disparity in the unemployment rate between the West Bank and Gaza Strip, as this rate reached 47% in Gaza Strip compared to 16% in the West Bank.

On the gender level, the unemployment rate for females reached 43% compared to 22% for males in Palestine[2].

2 Labor force report, Palestinian Central Bureau of Statistics, 2021.

**Figure 4: Unemployment Rate in Palestine (2012-2021)**




The number of the employees in the local market increased from 830 thousand in 2020 to 889 thousand in 2021, where it increased in the West Bank by 4%, and in Gaza Strip it increased by 15% for the same period.

## 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, which showed improved performance in 2021 compared to 2020. Following is a summary of the most important improvements in performance indicators[3]:

### 2.1 Total Deposits

Total customer deposits in the Palestinian banking sector amounted to 16,519 million USD at the end of 2021, compared to 15,138.3 million USD at the end of 2020, indicating an increase of 1,380.7 million USD or 9.12%. In comparison, deposits increased by 13.10% equivalent to 1,753.6 million USD during 2020.

3 Preliminary data issued by Palestine Monetary Authority

**Figure 5: Historical development of deposits in the banking system (2009 - 2021)**

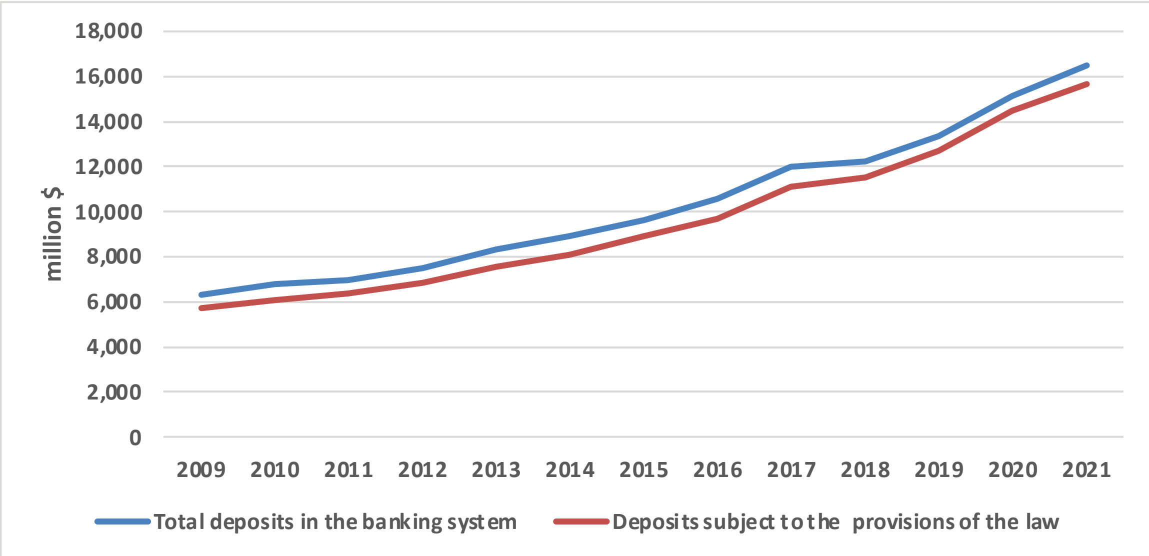
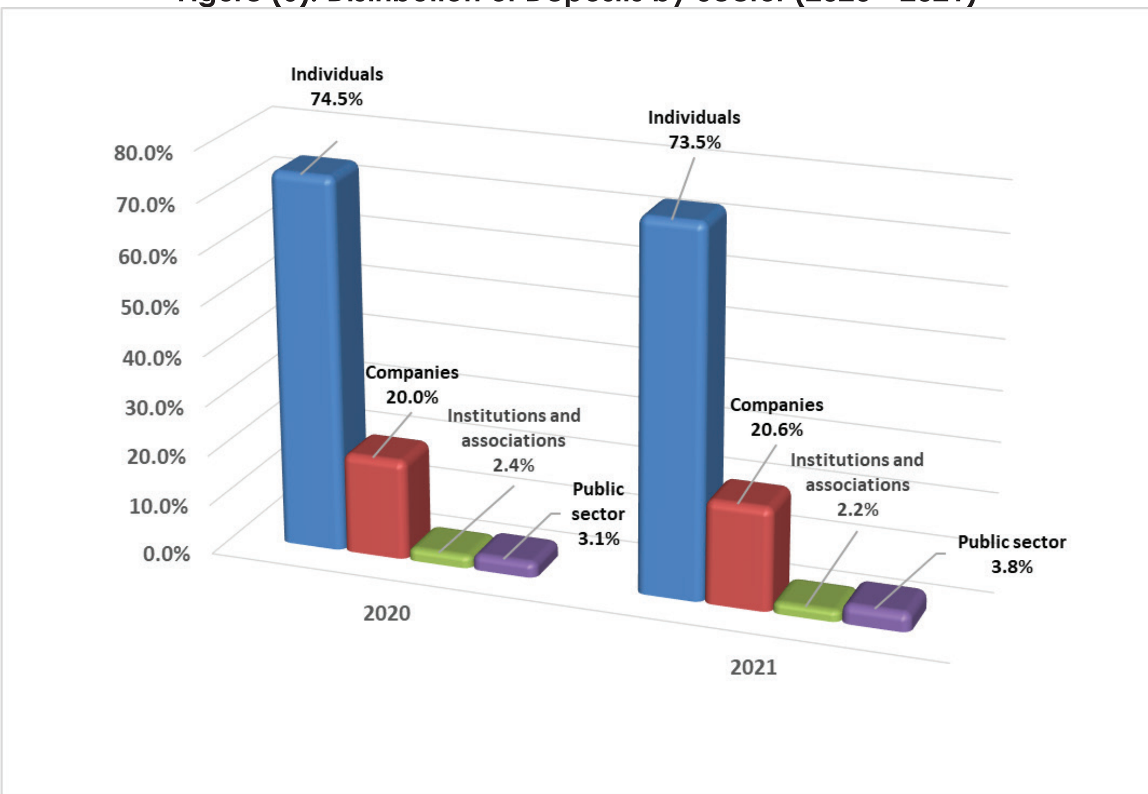



**Figure (6): Distribution of Deposits by Sector (2020 - 2021)**



In 2021, the share of companies and the public sector in total deposits increased by 20.6% and 3.8%, respectively. Compared to 20% and 3.1% in 2020. On the other hand, the share of individuals, and the institutions, associations 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 (2020-2021)**

| Year | Individuals | Companies | Institutions and associations | Public sector |
|---|---|---|---|---|
| 2020 | 11,283.5 | 3,020.4 | 369.4 | 465.1 |
| 2021 | 12,134.9 | 3,398.6 | 356.7 | 628.8 |
| **Growth rates** | **7.5%** | **12.5%** | **-3.4%** | **35.2%** |

Individuals' deposits represented 73.5 percent of total deposits in the banking system by the end of 2021

**Table (2): Distribution of customer deposits by currency and their growth rates (million Dollars) (2020-2021)**

| Year | NIS deposits | JD deposits | USD deposits | Deposits in other currencies |
|---|---|---|---|---|
| 2020 | 5,549.9 | 3,254.2 | 5,925.2 | 409.0 |
| 2021 | 5,918.1 | 3,617.4 | 6,513.3 | 470.1 |
| **Growth rates** | **6.6%** | **11.2%** | **9.9%** | **15.0%** |

**Table (3): Development of deposits and depositors in Commercial banks versus Islamic banks (2013-2021)**

| Year | Deposits (in $ million) | | The number of depositors (in thousands) | | Total | |
|---|---|---|---|---|---|---|
| | Commercial banks | Islamic banks | Commercial banks | Islamic banks | Deposits (million $) | Depositors (in thousands) |
| 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 |
| 2021 | 13,530 | 2,989 | 1,682 | 498 | 16,519 | 2,180 |

By the end of 2021, deposits held by commercial banks accounted for the lion's share of 81.9% of total deposits, compared to 82.4% at the end of 2020, indicating a decrease of 0.6 percent. In contrast, deposits held with Islamic banks accounted for 18.1% of total deposits at the end of 2021 compared to 17.6% at the end of 2020, reflecting an increase of 2.6%.

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

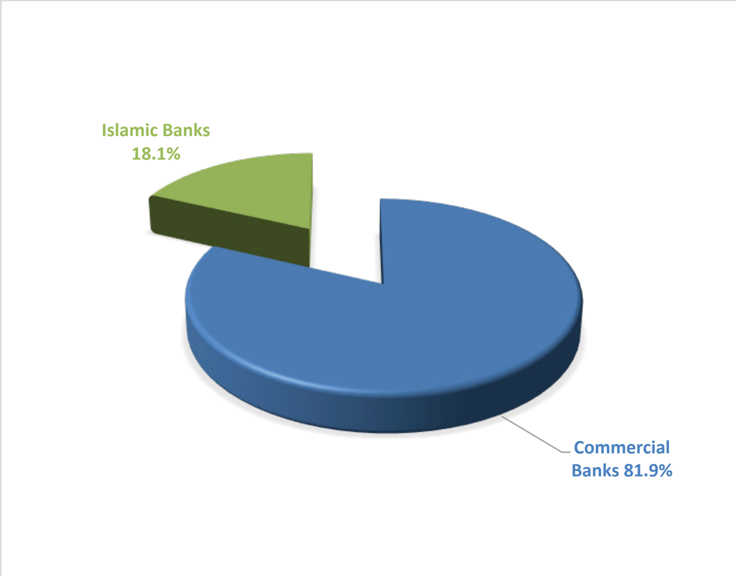
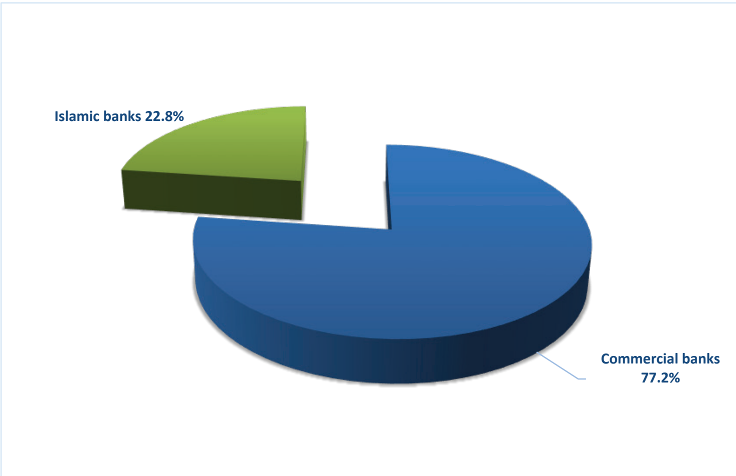



**Figure (8): Percentage of Commercial Banks depositors in comparison to Islamic Banks depositors**




The percentage of depositors in commercial banks decreased by 3.7%, representing 77.2% of the total depositors at the end of 2021, compared to 80.1% at the end of 2020.

## 2.2 Credit Facilities Portfolio

- Direct (net) credit facilities amounted to about 10,321.5 million USD at the end of 2021 compared to 9,711.4 million USD at the end of 2020, indicating an increase of 610.1 million USD or 6.3%. These facilities represents 47.6% of total assets at the end of 2021, compared to 48.8% at the end of 2020.

- Off balance sheet items (indirect credit facilities) of the banking system amounted to about 1,664.6 million USD at the end of 2021 compared to 1,691.8 million USD at the end of 2020, indicating a decrease of USD 27.1 million or 1.6%. These indirect credit facilities accounted for 7.7% of total assets at the end of 2021 compared to 8.51% at the end of 2020.

## 2.3 Non-performing loans

- The ratio of non-performing loans to total direct credit facilities decrease by 2.1%. The percentage was 4.15% for banks operating in Palestine at the end of 2021, compared to 4.24% at the end of 2020.
- The coverage ratio of provisions for non-operating facilities was about 94.7% for banks operating in Palestine at the end of 2021, compared to 86.1% at the end of 2020, with an increase of 10.1%.
- Credit facilities granted to related parties decreased to total credit facilities by 20.8%, reaching 3.8% at the end of 2021, compared to 4.8% at the end of 2020.

## 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 16.2% at the end of 2021 compared to 15.6% at the end of 2020.

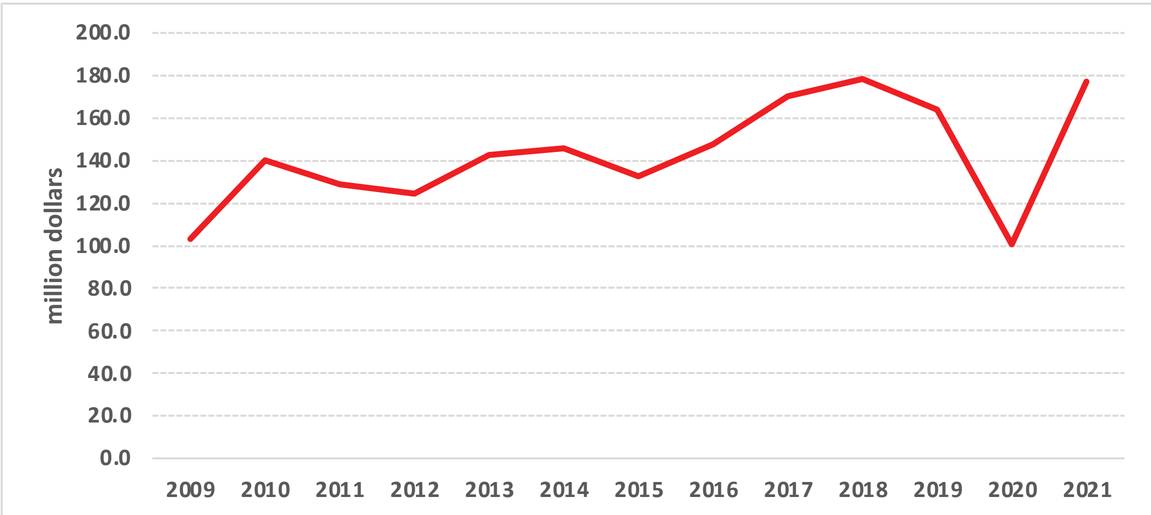
### 2.4.2 Profitability

- As for the income statement, the net profit after taxes for the banking system at the end of 2021 was 177.4 million USD, compared to 100.6 million USD at the end of 2020, registering an increase of 76.8 million USD, equivalent to 76.3%.

- The percent of net profit after taxes to the total assets of the banking system amounted to 0.82% at the end of 2021, compared to 0.51% at the end of 2020.

- The percent of net profit after taxes to the first tier of the banking system's capital amounted 10.61% at the end of 2021, compared to 6.07 % at the end of 2020.

**Figure (9): Net income for banks operating in Palestine (2009 -2021)**




### 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 2021:

### 2.5.1 Number of branches and representative offices

The number of branches and representative offices of banks operating in Palestine fixed at the end of 2021 to 379.

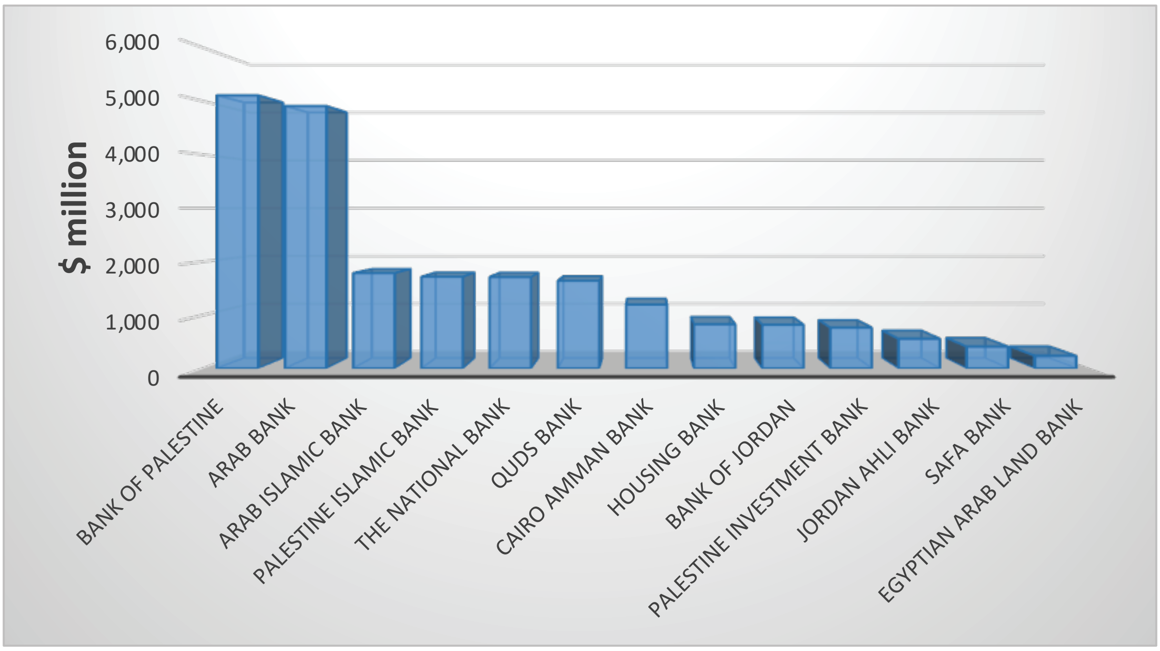
### 2.5.2 Structure of assets and liabilities

- Total assets of banks operating in Palestine amounted to around 21,672.9 million USD at the end of 2021 compared to 19,886.2 million USD by the end of 2020, increasing by 1,786.7 million USD or 9% increase, compared to an increase by 2,543 million USD or a 14.7% increase during 2020.

- Total liabilities for banks operating in Palestine amounted to about 19,572.8 million USD by the end of 2021 compared to 17,918.8 million USD by the end of 2020, increasing by USD 1,654 million, or an increase of 9.2 %, compared to an increase of 2,556.9 million USD or a 16.6% increase during 2020.

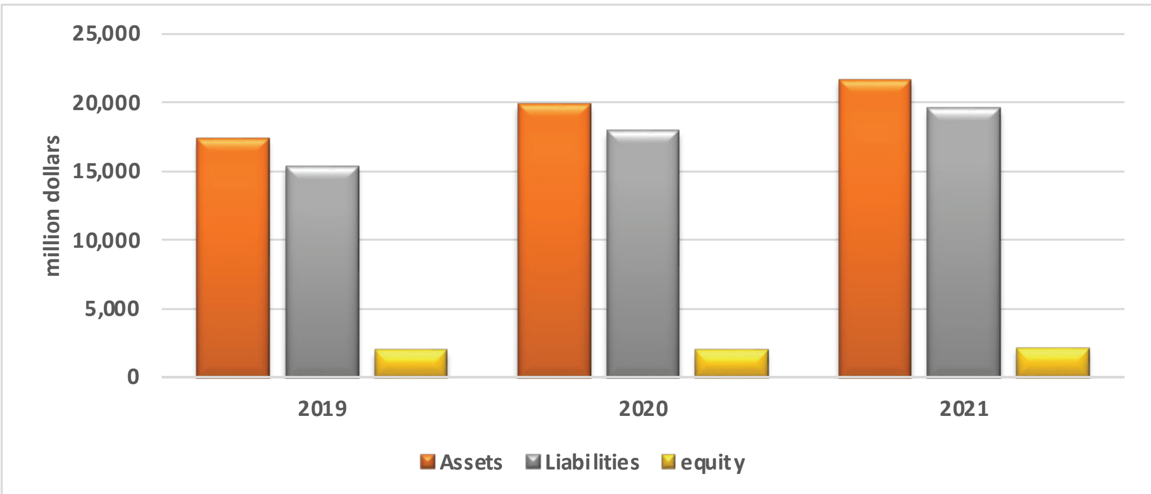
- Total owners' equity of banks operating in Palestine amounted to around 2,100 million USD by the end of 2021 compared to 1,967.4 million USD by the end of 2020, increasing by 132.6 million USD or 6.7 % increase, compared to decrease of 13.9 million USD or a 0.7% decrease during 2020.

**Figure (10): Total Assets of Banks Operating in Palestine, by the end of 2021**




Member banks' investments in financial assets (stocks and bonds inside Palestine and abroad) amounted to about 1,476.6 million USD by the end of 2021 compared to 1,354.2 million USD by the end of 2020, indicating an increase of 122.3 million USD or 9%. Investments represented 6.8% of total assets in 2021 compared to 6.8% by the end of 2020.

**Figure (11): Change in Total assets, liabilities and Equity of Banks Operating in Palestine (2019 – 2021)**



- **Key Financial Performance Indicators for Member Banks**

**Table (4): Key Financial Performance Indicators (2019 - 2021)**

| The main Financial Performance Indicators for Member Banks (2019 – 2021) | | | |
|---|---|---|---|
| **Ratio** | **2019** | **2020** | **2021** |
| Credit facilities (net) to total assets | 50.5% | 48.8% | 47.6% |
| Investments in financial assets “stocks and bonds inside Palestine and abroad” to total assets | 8.1% | 6.8% | 6.8% |
| Non-performing facilities to total direct facilities | 4.11% | 4.24% | 4.15% |
| Capital adequacy ratio | 16.59% | 15.62% | 16.17% |
| Return on total assets (after tax) | 0.95% | 0.51% | 0.82% |

**Table (5): Banks operating in Palestine, by the end of 2021**

| The member banks | | | |
|---|---|---|---|
| **Operating banks in Palestine by the end of 2021** | **Year Of Establishment** | **Number of Branches & offices by the end of 2021** | **Total assets by the end of 2021 (USD million)** |
| **Local Banks** | | | |
| Bank of Palestine | 1960 | 71 | 5,113 |
| Arab Islamic Bank | 1996 | 28 | 1,785 |
| Palestine Islamic Bank | 1997 | 44 | 1,715 |
| The National Bank | 2006 | 37 | 1,710 |
| Quds Bank | 1995 | 39 | 1,640 |
| Palestine Investment Bank | 1995 | 21 | 762 |
| Safa Bank | 2016 | 9 | 407 |
| **Foreign Banks** | | | |
| Arab Bank | 1994 | 34 | 4,914 |

| | | | |
|---|---|---|---|
| Cairo Amman Bank | 1986 | 22 | 1,193 |
| Housing Bank | 1995 | 15 | 826 |
| Bank Of Jordan | 1994 | 42 | 817 |
| Jordan Ahli Bank | 1995 | 10 | 554 |
| Egyptian Arab Land Bank | 1994 | 7 | 236 |

**Figure (12): Bank Branches and Representative Offices by the End Of 2021**

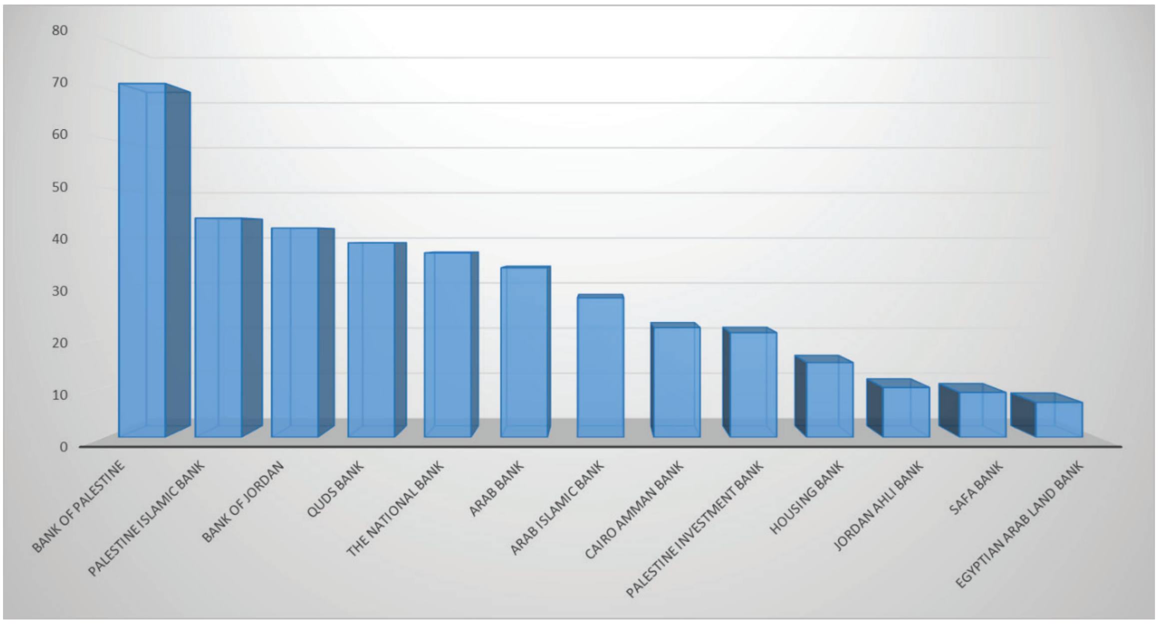


**Table (6): Geographical Distribution of Gross Customer Deposits and Gross Direct Facilities by Region (USD Million)**

| Region | 2020 | | 2021 | |
|---|---|---|---|---|
| | Gross Direct Facilities | Gross Customer Deposits | Gross Direct Facilities | Gross Customer Deposits |
| Ramallah | 5,674 | 5,239 | 5,956 | 5,700 |
| AL-Ram | 93 | 590 | 112 | 635 |
| AL-Azaria | 216 | 541 | 235 | 598 |
| Bethlehem | 508 | 1,112 | 515 | 1,170 |
| Beit Jala | 45 | 95 | 47 | 116 |
| Beit Sahour | 11 | 37 | 14 | 41 |
| Hebron | 564 | 1,541 | 664 | 1,636 |
| Jericho | 183 | 199 | 197 | 224 |
| Tol Karem | 209 | 716 | 209 | 777 |
| Nablus | 1,091 | 1,981 | 1,187 | 2,237 |
| Salfeat | 67 | 195 | 88 | 240 |
| Topass | 51 | 120 | 53 | 132 |
| Qalqeliya | 107 | 286 | 121 | 322 |
| Jenine | 368 | 1,057 | 409 | 1,139 |
| **West Bank** | **9,187** | **13,709** | **9,806** | **14,966** |
| Gaza | 602 | 970 | 624 | 1,032 |
| Khan Younis | 73 | 162 | 75 | 181 |
| Rafah | 57 | 79 | 61 | 86 |
| Dear AL-balah | 48 | 44 | 51 | 49 |
| AL-Nosirat | 54 | 97 | 65 | 106 |
| Jabalia | 58 | 77 | 62 | 98 |
| **Gaza Strip** | **892** | **1,429** | **938** | **1,553** |
| **Grand Total** | **10,079** | **15,138** | **10,744** | **16,519** |

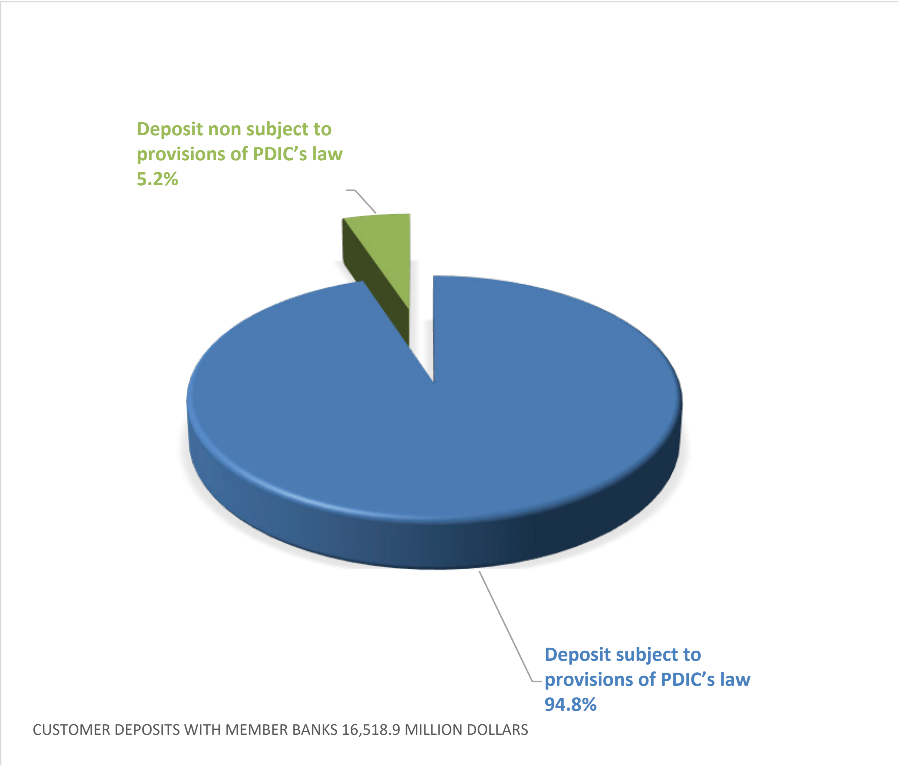
***Data Source: PMA**

• **Scope of coverage**

## a) Deposits subject to the provisions of the Law

Total deposits subject to the provisions of the law amounted to about 15,667.3 million USD at the end of 2021, compared to 14,482.7 million USD at the end of 2020, registering an increase of 8.18%. These deposits belong to about 2,171 thousand depositors with an average value of deposits of 7,218 USD in 2021 compared to 1,797 thousand depositors with an average deposit value of 8,060 USD in 2020.

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




Deposits subject to the provisions of the Law constituted 94.8 percent of total deposits held by member banks by the end of 2021.

**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 20.94 % of total deposits subject to the provisions of the law by the end of 2021, amounting to $ 3.280.2 million. They belong to 2,033 thousand depositors with an average deposit value of 1,613 USD compared to 3,135.9 million USD belong to 1,681 thousand depositors with an average deposit value of 1,866 USD by the end of 2020. The percentage of fully insured depositors was 93.67 % of total depositors whose deposits are subject to the provisions of the Law by the end of 2021.

The percentage of fully insured depositors reached 93.67 %of total depositors whose deposits are subject to the provisions of PDIC's Law by the end of 2021

↕

Fully insured deposits represented 20.94 %of total deposits subject to the provisions of PDIC's Law by the end of 2021.

**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 12,387.1 million USD by the end of 2021, compared to 11,346.8 million USD by the end of 2020, constituting 79.06% of total deposits subject to the provisions of the Law by the end of 2021.

- These deposits belong to about 137 thousand depositors, constituting 6.33% of

  total depositors whose deposits are subject to the provisions of Law, with an average deposit value of 90,183 USD by the end of 2021, compared to 116 thousand depositors with an average deposit value of 97,681 USD by the end of 2020.

The percentage of partially insured depositors represented 6.33 %of total depositors whose deposits are subject to the provisions of PDIC's Law by the end of 2021

↕

Partially insured deposits represented 79.06 % of total deposits subject to the provisions of PDIC's Law by the end of 2021

**d) Prompt Reimbursement**

The concentration of prompt reimbursement amount with the largest bank was 22.54% by the end of 2021, 43.54% for the two largest banks and 54.39% for the three largest banks.

# Table (7): Main Indicators of deposits and depositors at member banks (2014-2021)

| Main indicators of deposits and depositors at members banks (2014-2021) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Indicators** | **14-Dec** | **15-Dec** | **16-Dec** | **17-Dec** | **18-Dec** | **19-Dec** | **20-Dec** | **21-Dec** | **Growth rate** |
| Total deposits at member banks (USD million) | 8,934.5 | 9,654.2 | 10,604.7 | 11,982.5 | 12,227.3 | 13,384.7 | 15,138.3 | 16,519.0 | 9.1% |
| Total depositors at member banks (in thousand) | 1,467 | 1,460 | 1,536 | 1,604 | 1,636 | 1,730 | 1,806 | 2,180 | 20.7% |
| Average deposit value for total depositors at member banks (USD) | 6,091 | 6,612 | 6,902 | 7,472 | 7,474 | 7,735 | 8,384 | 7,577 | -9.6% |
| Deposits subject to provisions of the law ( USD million) | 8,120 | 8,936 | 9,713 | 11,099 | 11,516 | 12,726 | 14,483 | 15,667 | 8.2% |
| Number of depositors whose deposits are subject to the provisions of the law (in thousand) | 1,463 | 1,455 | 1,531 | 1,590 | 1,630 | 1,724 | 1,797 | 2,171 | 20.8% |
| Average deposit value for depositors whose deposits are subject to the provisions of the law (USD) | 5,550 | 6,141 | 6,343 | 6,980 | 7,064 | 7,383 | 8,060 | 7,218 | -10.4% |
| Deposits subject to the provisions of the law to total deposits at member banks (%) | 90.9% | 92.6% | 91.6% | 92.6% | 94.2% | 95.1% | 95.7% | 94.8% | -0.9% |
| Prompt reimbursement amount (USD million ) | 2,409 | 2,619 | 2,839 | 4,412 | 4,490 | 4,871 | 5,459 | 6,027 | 10.4% |
| Fully insured deposits (all deposits that are less than or equal to the coverage limit) (USD million ) | 1,198 | 1,301 | 1,382 | 2,459 | 2,592 | 2,760 | 3,136 | 3,280 | 4.6% |
| Number of fully insured depositors (in thousand) | 1,342 | 1,324 | 1,386 | 1,493 | 1,535 | 1,618 | 1,681 | 2,033 | 20.9% |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Average deposit value for fully insured depositors (USD) | 893 | 983 | 997 | 1,648 | 1,688 | 1,706 | 1,866 | 1,613 | -13.6% |
| Partially insured deposits (all deposits that are in excess of coverage limit) (USD million ) | 6,922 | 7,635 | 8,331 | 8,640 | 8,924 | 9,966 | 11,347 | 12,387 | 9.2% |
| Number of partially insured depositors (in thousand) | 121 | 132 | 146 | 98 | 95 | 106 | 116 | 137 | 18.1% |
| Average deposit value for partially insured depositors (USD) | 57,138 | 57,962 | 57,174 | 88,482 | 94,020 | 94,435 | 97,681 | 90,183 | -7.7% |
| Fully insured deposits to total deposit subject to the provisions of the law (%) | 14.8% | 14.6% | 14.2% | 22.2% | 22.5% | 21.7% | 21.65% | 20.94% | -3.3% |
| Partially insured deposits to total deposit subject to the provisions of the law (%) | 85.2% | 85.4% | 85.8% | 77.8% | 77.5% | 78.3% | 78.35% | 79.06% | 0.91% |
| Number of fully insured depositors to total depositors whose deposits are subject to provisions of the law (%) | 91.7% | 90.9% | 90.5% | 93.9% | 94.2% | 93.9% | 93.54% | 93.67% | 0.14% |
| Number of partially insured depositors to total depositors, whose deposits are subject to the provisions of the law (%) | 8.3% | 9.1% | 9.5% | 6.1% | 5.8% | 6.1% | 6.5% | 6.3% | -2.10% |
| Concentration of prompt reimbursement amount (the largest two banks) (%) | 48.1% | 46.40% | 45.22% | 45.58% | 44.64% | 44.59% | 44.12% | 43.54% | -1.31% |
| Concentration of prompt reimbursement amount (the largest three banks) (%) | 57.3% | 56.70% | 53.32% | 54.02% | 54.49% | 55.23% | 54.73% | 54.39% | -0.62% |

# Chapter 2:
# Palestine Deposit Insurance Corporation

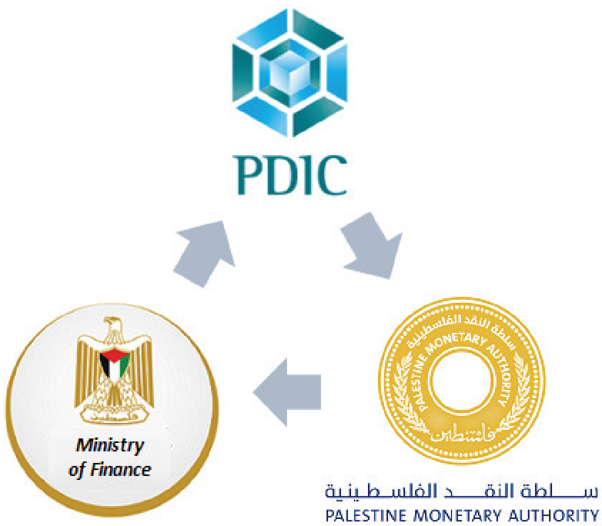
## 1. **Deposit Insurance System in Palestine**

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.[1]

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**




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

1 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

## 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 a 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 guarantees 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 Palestinian 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 20 employees at the end of 2021 coming from different disciplines and specializations.

- **General Manager**

  The General Manager of PDIC carries out duties and authorities assigned to him/her pursuant to the PDIC Law, in order to manage the Corporation's matters, 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.

- **Financial 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 resource 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 corporation 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 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 providing 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 includes the following: providing PDIC with an appropriate information and analytical framework, necessary for its work, and achieving its principle of transparency and reliability. Throughout, producing 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 Divisions of PDIC. It is the Corporation's "window" to the local and international community. It reinforces the means of communication and cooperation locally and abroad with all targeted population of the society. It also disseminates PDIC's vision and mission by the best possible means 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 and the Social Media.

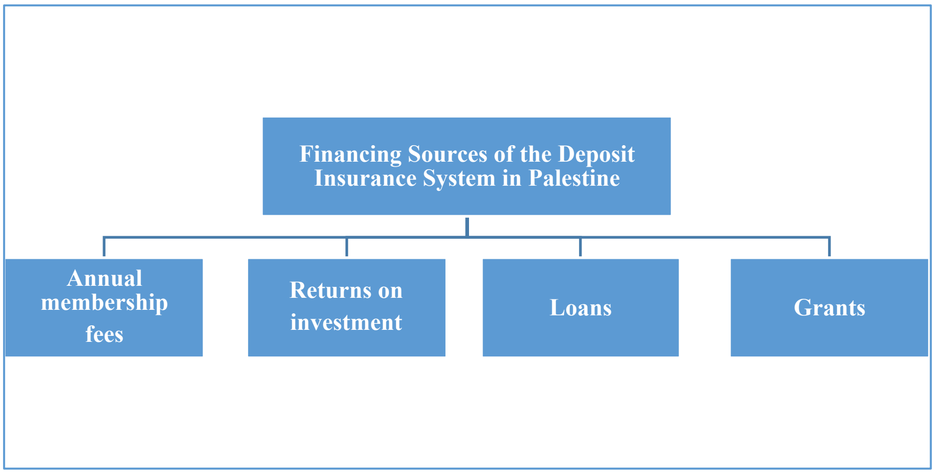
### ❖ Gaza Office

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 get a loan 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 2021. 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 its 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 2021

## PDIC's Achievements and Activities 2021

The PDIC completed many achievements and activities in 2021, most importantly:

The PDIC signed several memorandum of understanding that would strengthen its international relations with the deposit insurance corporations worldwide, fulfil its responsibilities and exercising of the functions assigned to it more effectively, in addition to exchanging of experiences in various areas relating to the deposit insurance system to contribute to achieving its goals. The PDIC reactivated its memorandum of understanding and mutual cooperation with the Korea Deposit Insurance Corporation, which was signed in 2017, in August 2021 and signed a mutual cooperation agreement with the Indonesia Deposit Insurance Corporation in June 2021.

The PDIC introduced amendments to the PDIC Law No. 15 of 2021, which grants the PDIC the power to finance the reforms approved by the Palestine Monetary Authority, being the authority that has the jurisdiction to carry out reform from its own funds, for any member-bank that suffers from disruptions or material problems that affect their financial position and threaten their breakdown. Further, the PDIC and the Palestine Monetary Authority set the necessary policies and measures to undertake reforms and handle the banks which are collapsed or with a high potential for breakdown.

### International conferences and meetings

The PDIC took part in several conferences and meetings via Zoom technology, including the annual international conference of the International Association of Deposit Insurers (IADI), in addition to several workshops and meetings relating to the PDIC. Such engagements boost the PDIC's strategy and objectives aiming at building a network of international relations with the deposit insurance corporations worldwide, to strengthen the relations and exchange the experiences between the PDIC and its regional and international counterparts. During these conferences, they discuss the key challenges facing the deposit insurance corporations, and learn from the experiences of other corporations to strengthen their role in the financial stability and support of the economy, as well as learn the latest developments concerning the deposit insurance systems.

### Raising the awareness concerning the Palestinian deposit insurance system

In its pursuit to abide by the core principles for effective deposit insurance systems, and to achieve one of its objectives, that's to raise the public awareness regarding the deposit insurance system in Palestine, the PDIC introduced an awareness campaign in 2021 which covered all social media platforms, and its website, as well as many publications which have been distributed to all the bank branches and offices.

## 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 2023, 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).

Preliminary results of the Strategic Plan showed that the target reserve level of %3 of total deposits subject to the provisions of the Law can be reached by 2031, as a result of increase the fees from %0.1 to %0.2 at the beginning of 2022.

## Medium-Term Key Indicators

### Table (8): Medium-Term Key Indicators

| Item | Actual | | Expected | | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Deposit subject to the provisions of PDIC's law (USD million ) | 14,482.7 | 15,667.3 | 17,039.8 | 18,532.5 | 20,155.9 | 21,921.6 |
| Prompt reimbursement amount ( USD million ) | 5,459.1 | 6,027.3 | 6,451.9 | 6,897.1 | 7,363.9 | 7,853.2 |
| PDIC's reserves (USD million) | 212.02 | 229.41 | 270.05 | 314.93 | 364.42 | 418.97 |
| PDIC's reserves to deposits subject to the provisions of the law (%) | 1.464% | 1.464% | 1.585% | 1.699% | 1.808% | 1.911% |
| PDIC's reserves to Prompt reimbursement amount (%) | 3.9% | 3.8% | 4.2% | 4.6% | 4.9% | 5.3% |
| PDIC's reserves to targeted reserve (%) | 48.8% | 48.8% | 52.8% | 56.6% | 60.3% | 63.7% |
| Prompt reimbursement amount to deposits subject to the provisions of the law (%) | 37.7% | 38.5% | 37.9% | 37.2% | 36.5% | 35.8% |

# 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, 2021, 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, 2021, 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 the PDIC in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**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 the 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 the PDIC or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the 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.

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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 the 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 the 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
June 30, 2022

Palestine Deposit Insurance Corporation

**STATEMENT OF FINANCIAL POSITION**
As at December 31, 2021

| | Note | 2021<br>U.S. $ | 2020<br>U.S. $ |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand and at banks | 3 | 32,751,586 | 4,384,843 |
| Balances with Palestine Monetary Authority (PMA) | 4 | 36,076 | 103,625 |
| Subscription fees receivable | 5 | 3,745,507 | 3,336,344 |
| Financial assets at amortized cost | 6 | 190,552,472 | 202,209,282 |
| Property and equipment | 7 | 203,241 | 1,223,118 |
| Investment properties | 8 | 1,113,272 | - |
| Right-of-use Assets | 9 | - | 118,716 |
| Intangible assets | 10 | 29,569 | 29,254 |
| Other assets | 11 | 1,477,800 | 1,611,903 |
| **Total Assets** | | 229,909,523 | 213,017,085 |
| **Liabilities and Equity** | | | |
| **Liabilities** | | | |
| Employees' end of service provision | 12 | 303,185 | 239,396 |
| Lease liability | 13 | - | 140,383 |
| Other liabilities | 14 | 201,084 | 614,863 |
| **Total liabilities** | | 504,269 | 994,642 |
| **Equity** | | | |
| Paid-in share capital | 1 | 14,184,814 | 14,184,814 |
| Islamic banks' reserve | 15 | 30,932,196 | 27,664,366 |
| Commercial banks' reserve | 15 | 184,288,244 | 170,173,263 |
| **Total equity** | | 229,405,254 | 212,022,443 |
| **Total Liabilities and Equity** | | 229,909,523 | 213,017,085 |

Palestine Deposit Insurance Corporation

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

| | Note | 2021<br>U.S. $ | 2020<br>U.S. $ |
|---|---|---|---|
| **Revenues** | | | |
| Subscription fees revenues | 16 | 14,321,443 | 21,798,290 |
| Interest on deposits and revenues on bonds, net | 17 | 4,754,923 | 4,228,816 |
| Deferred revenues recognized | 14 | 35,465 | - |
| Other revenues | | 16,934 | 15,850 |
| Gross revenues before expected credit losses provisions | | 19,128,765 | 26,042,956 |
| Provision for expected credit losses, net | 3,6,21 | (472,687) | (138,839) |
| **Net revenues after expected credit losses provisions** | | 18,656,078 | 25,904,117 |
| **Expenses** | | | |
| Employees' expenses | 18 | (896,406) | (839,680) |
| General and administrative expenses | 19 | (191,671) | (223,975) |
| Depreciation and amortization | 7,9,10 | (142,021) | (111,076) |
| Projects in progress disposal expenses | 20 | (30,942) | (598,556) |
| Finance cost related to lease liability | | (8,241) | (11,180) |
| Currency variances losses | | (3,986) | (6,965) |
| | | (1,273,267) | (1,791,432) |
| **Income for the year** | | 17,382,811 | 24,112,685 |
| Other comprehensive income items | | - | - |
| **Total comprehensive income for year** | | 17,382,811 | 24,112,685 |

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

| | Paid-in capital | Islamic banks' reserve | Commercial banks' reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **2021** | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balance, beginning of the year | 14,184,814 | 27,664,366 | 170,173,263 | - | 212,022,443 |
| Total comprehensive income for the year | - | - | - | 17,382,811 | 17,382,811 |
| Transfers to the reserves (Note 15) | - | 3,267,830 | 14,114,981 | (17,382,811) | - |
| **Balance, end of the year** | 14,184,814 | 30,932,196 | 184,288,244 | - | 229,405,254 |

| | 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 |
| Transfers to the reserves (Note 15) | - | 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 |

Palestine Deposit Insurance Corporation

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

| | Note | 2021<br>U.S. $ | 2020<br>U.S. $ |
|---|---|---|---|
| **Operating activities** | | | |
| Income for the year | | 17,382,811 | 24,112,685 |
| **Adjustments for:** | | | |
| Depreciation and amortization | | 142,021 | 111,076 |
| Finance cost related to lease liability | | 8,241 | 11,180 |
| Employees' end of service provision | | 80,076 | 80,294 |
| Provision for expected credit losses, net | | 472,687 | 138,839 |
| Gains on disposal of lease liabilities | | (15,310) | - |
| Losses on disposal of intangible assets and project in progress | | - | 5,767 |
| Deferred revenues recognized | | (35,465) | - |
| Gains from sale of property and equipment | | (908) | - |
| Interest on deposits and revenues on bonds, net | | (4,754,923) | (4,228,816) |
| | | 13,279,230 | 20,231,025 |
| **Working capital changes:** | | | |
| Deposits at Banks maturing in more than three months | | (32,171,283) | - |
| Subscription fees receivable | | (409,163) | 5,626,873 |
| Other assets | | 69,283 | (8,252) |
| Other liabilities | | (550,360) | 551,598 |
| **Net cash flows (used in) from operating activities before employees' end of service paid** | | (19,782,293) | 26,401,244 |
| Employees' end of service paid | | (16,287) | (9,443) |
| **Net cash flows (used in) from operating activities** | | (19,798,580) | 26,391,801 |
| **Investment activities** | | | |
| Purchase of property, equipment and intangible assets | | (18,766) | (84,605) |
| Sale of property and equipment | | 130 | - |
| Matured of financial assets at amortized cost | | 56,677,995 | 78,114,394 |
| Purchase of financial asset at amortized cost | | (46,388,330) | (113,995,785) |
| Interest on deposits and revenues on bonds received, net | | 6,150,728 | 4,893,319 |
| **Net cash flows from (used in) investment activities** | | 16,421,757 | (31,072,677) |
| **Financing activities** | | | |
| Lease liability payments | | (61,625) | (61,251) |
| **Net cash flows used in financing activities** | | (61,625) | (61,251) |
| **Decrease in cash and cash equivalents** | | (3,438,448) | (4,742,127) |
| Cash and cash equivalents, beginning of the year | | 4,541,238 | 9,283,365 |
| **Cash and cash equivalents, end of the year** | 22 | 1,102,790 | 4,541,238 |

**NOTES TO THE FINANCIAL STATEMENTS**
December 31, 2021

## 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, 2021 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 employees was (20) and (23) as of December 31, 2021 and December 31, 2020, respectively.

The financial statements of PDIC as of December 31, 2021 have been approved by PDIC's Board of Directors in meeting No. (2/2022) on June 19, 2022.

## 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, 2021 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, 2020, except that PDIC applied certain amendments as of January 1, 2021:

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

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

The amendments include the following practical expedients:

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

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

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

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

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

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

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

**International Financial Reporting Standards and amendments issued but not yet effective**

International financial standards and amendments issued but not yet effective until the date of the financial statements are listed below, and PDIC will apply these standards and amendments starting from the date of mandatory application:

**Reference to the conceptual framework - Amendments to IFRS 3**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**IFRS 9 Financial Instruments – The '10%' test for derecognition of financial liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

## 2.3 Summary of significant accounting policies

**Revenues recognition**

**Subscription fees revenues**

Banks annual subscription fees are recognized at a specific percentage of the average total deposits subject to the provisions of Law No. (7) of 2013 which was issued on May 29, 2013 in accordance with circulars issued by PDIC in this regard.

**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.

**Property 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 |
| Office supplies and computer systems | 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.

**Investment properties**

Investment properties are measured at cost less accumulated depreciation and any accumulated impairment in value. The carrying value of investment properties is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, investment properties are written down to their recoverable amount.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of income and comprehensive income in the period of derecognition.

Transfers are made to (or from) investment properties only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the book value at the date of change in use. If owner-occupied property becomes an investment property, PDIC accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

**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.

**Deferred Revenues**

Donations related to the property and equipment are measured at fair value, recorded as deferred revenues and recognized as revenue in the statement of income and other comprehensive income on a systematic basis over the useful life of the property and equipment.

**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 (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

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash in hand | 610 | 556 |
| Current and demand accounts | 1,066,104 | 851,019 |
| Deposits maturing after more than three months | 32,171,283 | - |
| Deposits maturing within three months | - | 3,586,038 |
| | 33,237,997 | 4,437,613 |
| Less: provision for expected credit losses | (486,411) | (52,770) |
| | 32,751,586 | 4,384,843 |

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

| | 2021 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2021** | 4,437,057 | - | - | 4,437,057 |
| Net change during the year | 28,800,330 | - | - | 28,800,330 |
| **As of December 31, 2021** | 33,237,387 | - | - | 33,237,387 |

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

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

| | 2021 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2021** | 52,770 | - | - | 52,770 |
| Net expected credit losses for the year | 433,641 | - | - | 433,641 |
| **As of December 31,2021** | 486,411 | - | - | 486,411 |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2020** | 36,633 | - | - | 36,633 |
| Net expected credit losses for the year | 16,137 | - | - | 16,137 |
| **As of December 31, 2020** | 52,770 | - | - | 52,770 |

## 4. Balances with Palestine Monetary Authority (PMA)

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Current and demand accounts | 36,076 | 103,625 |
| | 36,076 | 103,625 |

## 5. Subscription fees receivable

This item represents the subscription fees accrued and receivables from members for the fourth quarter of 2021. Subscription fees receivable amounted to U.S. $3,745,507 and U.S. $ 3,336,344 as of December 31, 2021 and December 31, 2020, respectively.

## 6. Financial assets at amortized cost

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Quoted bonds and Islamic Sukuk in foreign markets* | 177,874,574 | 191,991,760 |
| Treasury bonds – Central Bank of Jordan** | 5,500,745 | 5,501,323 |
| Unquoted Bonds*** | 7,500,000 | 5,000,000 |
| | 190,875,319 | 202,493,083 |
| Less: provision for expected credit losses | (322,847) | (283,801) |
| | 190,552,472 | 202,209,282 |

* This item represents PDIC's investment in bonds issued by a foreign Institutions that mature within one to six years, with an interest rate from 1.63 %to 5.88 %

** This item represents PDIC's investment in bonds issued by the Central Bank of Jordan that mature within one year, with an interest rate from 3.95 %to 4.54%

*** This item represents PDIC's investment in bonds issued by a local company. The bonds mature within four to five years, with an interest rate from 4.5 %to 5%

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

| | 2021 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2021** | 202,493,083 | - | - | 202,493,083 |
| Additions during the year | 46,388,330 | - | - | 46,388,330 |
| Matured during the year | (56,677,995) | - | - | (56,677,995) |
| Net change in premiums and discounts during the year | (1,328,099) | - | - | (1,328,099) |
| **As of December 31, 2021** | 190,875,319 | - | - | 190,875,319 |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2020** | 162,021,207 | 5,500,718 | - | 167,521,925 |
| Transfer to stage (1) | 5,500,718 | (5,500,718) | - | - |
| Additions during the year | 113,995,785 | - | - | 113,995,785 |
| Matured during the year | (78,114,394) | - | - | (78,114,394) |
| Net change in premiums and discounts during the year | (910,233) | - | - | (910,233) |
| **As of December 31, 2020** | 202,493,083 | - | - | 202,493,083 |

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

| | 2021 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2021** | 283,801 | - | - | 283,801 |
| Net expected credit losses during the year | 39,046 | - | - | 39,046 |
| **As of December 31, 2021** | 322,847 | - | - | 322,847 |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **As of January 1, 2020** | - | 161,099 | - | 161,099 |
| Transfer to stage (1) | 161,099 | (161,099) | - | - |
| Net expected credit losses during the year | 122,702 | - | - | 122,702 |
| **As of December 31, 2020** | 283,801 | - | - | 283,801 |

## 7. Property and equipment

| December 31, 2021 | Land* U.S. $ | Leasehold improvements U.S. $ | Equipment U.S. $ | Furniture and fixture U.S. $ | Motor vehicles U.S. $ | office supplies and computer systems ** U.S. $ | Total U.S. $ |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Balance, beginning of the year | 1,113,272 | 140,642 | 53,112 | 71,701 | 38,249 | 107,908 | 1,524,884 |
| Additions | - | 631 | 3,092 | 5,409 | - | 169,127 | 178,259 |
| Disposals | - | - | - | (2,827) | - | (12,087) | (14,914) |
| Transfer to investment properties * | (1,113,272) | - | - | - | - | - | (1,113,272) |
| Balance, end of year | - | 141,273 | 56,204 | 74,283 | 38,249 | 264,948 | 574,957 |
| **Accumulated depreciation:** | | | | | | | |
| Balance, beginning of the year | - | 110,781 | 35,027 | 64,377 | 28,525 | 63,056 | 301,766 |
| Depreciation for the year | - | 19,769 | 4,356 | 3,036 | 7,650 | 47,945 | 82,756 |
| Disposals | - | - | - | (719) | - | (12,087) | (12,806) |
| Balance, end of year | - | 130,550 | 39,383 | 66,694 | 36,175 | 98,914 | 371,716 |
| **Book value at December 31, 2021** | - | 10,723 | 16,821 | 7,589 | 2,074 | 166,034 | 203,241 |
| **Book value at December 31, 2020** | 1,113,272 | 29,861 | 18,085 | 7,324 | 9,724 | 44,852 | 1,223,118 |

* 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. Based on this, PDIC Board of Directors decided to reclassify land to investment properties.

** The cost of office supplies and computer systems additions during the year through a donation by German Bank, amounted to U.S. $160,893, and the related book value amounted to U.S. $127,727 as of December 31, 2021 (note 14,26).

## 8. Investment properties

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | - | - |
| Transfer from property and equipment (Note 7) | 1,113,272 | - |
| Balance, end of the year | 1,113,272 | - |

## 9. Right-of-use Assets

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 118,716 | 178,530 |
| Disposals | (71,689) | - |
| Amortization during the year | (47,027) | (59,814) |
| Balance, end of the year | - | 118,716 |

## 10. Intangible assets

This item represents programs and software systems, following are the details of the movement during 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 29,254 | 33,718 |
| Additions* | 12,553 | 5,129 |
| Amortization | (12,238) | (9,593) |
| Balance, end of the year | 29,569 | 29,254 |

* The cost of programs and software systems added during the year through a donation by German Bank, amounted to U.S. $11,153, and the related book value amounted to U.S. $8,854 as of December 31, 2021 (note 14,26).

## 11. Other Assets

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Accrued interest on bonds | 1,386,502 | 1,489,758 |
| Accrued interest on deposits | 37,944 | 2,394 |
| Interest paid to bondholders | 24,657 | 93,083 |
| Prepaid expenses | 8,722 | 11,055 |
| Others | 19,975 | 15,613 |
| | 1,477,800 | 1,611,903 |

## 12. Employees' end of service provision

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 239,396 | 168,545 |
| Additions during the year | 80,076 | 80,294 |
| Paid during the year | (16,287) | (9,443) |
| Balance, end of the year | 303,185 | 239,396 |

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 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 140,383 | 190,454 |
| Disposals | (86,999) | - |
| Financing costs | 8,241 | 11,180 |
| Payments | (61,625) | (61,251) |
| Balance, end of the year | - | 140,383 |

**14. Other liabilities**

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Deferred revenues* | 136,581 | - |
| Provision for employees' vacations | 55,045 | 53,980 |
| Due to suppliers and accrued expenses | 9,458 | 560,883 |
| | 201,084 | 614,863 |

* This item represents the deferred revenues from German Development Bank (note 26).

Following is the movement on the deferred revenues during the year:

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | - | - |
| Additions | 172,046 | - |
| Transfer to deferred revenues recognized | (35,465) | - |
| Balance, end of the year | 136,581 | - |

**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 commercial (traditional) reserve so that the net income is distributed on Islamic and traditional reserves on a pro-rata basis, based on the subscription fees of each Islamic banks and commercial banks at the end of financial year.

**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%), where as 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, Circular No. (2/2020) was issued by PDIC 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 instead of 0.2% of the average total deposit. On November 9, 2021, Circular No. (2/2021) was issued by PDIC regarding raising the fixed subscription fee rate to 0.2% of the average total subject deposits as of January 1, 2022. The circular also stipulates the implementation of the risk-based fees collection system in early 2023.

Following are details of subscription fee revenue as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Commercial banks subscription fees | 11,629,126 | 17,968,429 |
| Islamic banks subscription fees | 2,692,317 | 3,829,861 |
| | 14,321,443 | 21,798,290 |

## 17. Interest on deposits and revenues on bonds, net

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Interest from commercial financial assets at amortized cost | 5,250,777 | 4,492,195 |
| Return from Islamic financial assets at amortized cost | 723,799 | 818,533 |
| Investment interest – time deposits with commercial banks | 187,396 | 89,396 |
| Investment revenues - time deposits with Islamic banks | 112,753 | - |
| Investment interest - time deposits with PMA | - | 1,722 |
| Brokerage firms' commissions | (191,703) | (262,797) |
| Amortization of bonds premium or discount, net | (1,328,099) | (910,233) |
| | 4,754,923 | 4,228,816 |

## 18. Employees' expenses

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Salaries and wages | 659,674 | 602,322 |
| Provision of employees' end of service | 80,076 | 80,294 |
| PDIC's contribution to provident fund | 62,237 | 60,743 |
| Employee's transportation | 47,559 | 47,556 |
| Health insurance expenses | 18,345 | 21,228 |
| Telecommunication | 11,012 | 4,889 |
| Accrued vacations | 9,562 | 12,202 |
| Training, conferences and meetings | 3,372 | 5,927 |
| Fuel | 2,423 | 1,985 |
| Others | 2,146 | 2,534 |
| | 896,406 | 839,680 |

## 19. General and administrative expenses

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Fees and subscriptions | 59,461 | 56,950 |
| Board of Directors remunerations | 38,500 | 40,000 |
| Consultations and legal fees | 24,712 | 22,036 |
| Telephone, internet and mail | 18,830 | 13,374 |
| Electricity and water | 12,063 | 14,196 |
| Security and cleaning | 10,387 | 13,913 |
| Advertising and marketing expenses | 7,676 | 34,564 |
| Office supplies | 3,434 | 7,131 |
| Maintenance | 2,887 | 3,185 |
| Fuel | 2,362 | 1,789 |
| Rents | 2,062 | - |
| Commissions and bank interests | 1,852 | 2,288 |
| Vehicle expenses | 1,481 | 1,363 |
| Hospitality | 1,106 | 1,762 |
| Translation expenses | 798 | - |
| Stationery and printings | 506 | 1,301 |
| Annual reports and work plans | 500 | 4,623 |
| General Insurance | 307 | 277 |
| Others | 2,747 | 5,223 |
| | 191,671 | 223,975 |

## 20. Projects in progress disposal expenses

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. The total expenses related to projects in progress disposal amounted to $30,924 and $598,556 as of December 31, 2021 and December 31, 2020, respectively.

## 21. Provision for expected credit losses

| | 2021 | | | |
|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Total |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Cash at banks (Note 3) | 433,641 | - | - | 433,641 |
| Financial assets at amortized cost (Note 6) | 39,046 | - | - | 39,046 |
| | 472,687 | - | - | 472,687 |

| | 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 |

## 22. 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:

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash in hand and balances at banks | 33,237,997 | 4,437,613 |
| Balances with Palestine Monetary Authority (PMA) | 36,076 | 103,625 |
| Less: Deposits at Banks maturing in more than three months | (32,171,283) | - |
| | 1,102,790 | 4,541,238 |

## 23. Related party transactions

This item represents balances and transactions with related parties, which includes the members of board of directors and key management. 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:

| | | 2021 | 2020 |
|---|---|---|---|
| | Nature of Relationship | U.S. $ | U.S. $ |
| Balances with Palestine Monetary Authority (PMA) | Board of directors | 36,076 | 103,625 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| | Nature of Relationship | U.S. $ | U.S. $ |
| Interest on deposit at PMA | Board of directors | - | 1,722 |
| Board of directors' remunerations and expenses | Board of directors | 38,500 | 40,000 |
| key management salaries and benefits: | | | |
| Short term benefits | | 146,282 | 138,634 |
| End of service provision | | 15,595 | 14,608 |

**24. Fair value measurement**

The following table provides the fair value measurement hierarchy of PDIC's assets as at December 31, 2021:

| | 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 bonds | December 31, 2021 | 179,806,110 | 179,806,110 | - | - |
| Unquoted bonds | December 31, 2021 | 7,336,899 | - | - | 7,336,899 |
| Jordanian treasury bills | December 31, 2021 | 5,489,890 | - | - | 5,489,890 |
| Investment properties (Note 8) | December 31, 2021 | 1,093,905 | - | - | 1,093,905 |

Following are quantitative disclosures fair value measurement hierarchy for 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): | | | | | |
| Quoted | December 31, 2020 | 196,616,369 | 196,616,369 | - | - |
| Unquoted bonds | December 31, 2020 | 4,891,266 | - | - | 4,891,266 |
| Jordanian treasury bills | December 31, 2020 | 5,485,040 | - | - | 5,485,040 |

## 25. 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 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Financial assets** | | | | |
| Cash in hand and at banks | 32,751,586 | 4,384,843 | 32,751,586 | 4,384,843 |
| Balances with Palestine Monetary Authority (PMA) | 36,076 | 103,625 | 36,076 | 103,625 |
| Subscription fees receivables | 3,745,507 | 3,336,344 | 3,745,507 | 3,336,344 |
| Financial assets at amortized cost | 190,552,472 | 202,209,282 | 192,632,899 | 206,992,675 |
| Other financial assets | 1,449,103 | 1,585,235 | 1,449,103 | 1,585,235 |
| | 228,534,744 | 211,619,329 | 230,615,171 | 216,402,722 |
| **Financial liabilities** | | | | |
| Lease liability | - | 140,383 | - | 140,383 |
| Other financial liabilities | 9,458 | 560,883 | 9,458 | 560,883 |
| | 9,458 | 701,266 | 9,458 | 701,266 |

- 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.

## 26. 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. During the year, office supplies, computer systems, software and networks were purchased through the consulting company amounted to U.S. $172,046 (note7,10). The amount transferred to the consulting firm amounted to Euro 514,382 and Euro 366,969 (equivalent to U.S. $ 582,280 and U.S. $ 421,094) from the grant as of December 31, 2021 and December 31, 2020, respectively.

**27. 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.

The following is gross exposures to credit risk, net of expected credit losses provisions:

| | 2021 | 2020 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balances at banks | 32,750,976 | 4,384,287 |
| Balances with Palestine Monetary Authority (PMA) | 36,076 | 103,625 |
| Subscription fees receivables | 3,745,507 | 3,336,344 |
| Financial assets at amortized cost | 190,552,472 | 202,209,282 |
| Other financial assets | 1,449,103 | 1,585,235 |
| | 228,534,134 | 211,618,773 |

The tables below show the maximum exposure to credit risk by class of financial assets and the expected credit losses for each:

| | Gross Exposure | | | Expected credit losses | | | ECL Coverage Ratios | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Stage (1) | Stage (2) | Stage (3) | Stage (1) | Stage (2) | Stage (3) |
| **2021** | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balances at banks | 33,237,387 | - | - | 486,411 | - | - | 1.46% | - | - |
| Balances with Palestine Monetary Authority (PMA) | 36,076 | - | - | - | - | - | - | - | - |
| Subscription fees receivables | 3,745,507 | - | - | - | - | - | - | - | - |
| Financial assets at amortized cost | 190,875,319 | - | - | 322,847 | - | - | 0.17% | - | - |
| Other financial assets | 1,449,103 | - | - | - | - | - | - | - | - |
| **Total** | 229,343,392 | - | - | 809,258 | - | - | 0.35% | - | - |

| | Gross Exposure | | | Expected credit losses | | | ECL Coverage Ratios | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage (1) | Stage (2) | Stage (3) | Stage (1) | Stage (2) | Stage (3) | Stage (1) | Stage (2) | Stage (3) |
| **2020** | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balances at banks | 4,437,057 | - | - | 52,770 | - | - | 1.19% | - | - |
| Balances with Palestine Monetary Authority (PMA) | 103,625 | - | - | - | - | - | - | - | - |
| Subscription fees receivables | 3,336,344 | - | - | - | - | - | - | - | - |
| Financial assets at amortized cost | 202,493,083 | - | - | 283,801 | - | - | 0.14% | - | - |
| Other financial assets | 1,585,235 | - | - | - | - | - | - | - | - |
| **Total** | 211,955,344 | - | - | 336,571 | - | - | 0.16% | - | - |

Concentration of credit risk exposures according to the geographical area is as follows:

| | Palestine | Jordan | Arab Countries | Europe | Others | Total |
|---|---|---|---|---|---|---|
| **2021** | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balances at banks | 32,485,256 | - | - | 752,131 | - | 33,237,387 |
| Balances with Palestine Monetary Authority (PMA) | 36,076 | - | - | - | - | 36,076 |
| Subscription fees receivables | 3,745,507 | - | - | - | - | 3,745,507 |
| Financial assets at amortized cost | 7,500,000 | 10,094,086 | 57,773,576 | 18,525,283 | 96,982,374 | 190,875,319 |
| Other financial assets | 90,583 | 206,489 | 287,076 | 133,876 | 731,079 | 1,449,103 |
| **Total** | 43,857,422 | 10,300,575 | 58,060,652 | 19,411,290 | 97,713,453 | 229,343,392 |

| | Palestine | Jordan | Arab Countries | Europe | Others | Total |
|---|---|---|---|---|---|---|
| **2020** | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Balances at banks | 3,912,764 | - | - | 524,293 | - | 4,437,057 |
| Balances with Palestine Monetary Authority (PMA) | 103,625 | - | - | - | - | 103,625 |
| Subscription fees receivables | 3,336,344 | - | - | - | - | 3,336,344 |
| Financial assets at amortized cost | 5,000,000 | 10,121,571 | 13,353,661 | 25,471,959 | 148,545,892 | 202,493,083 |
| Other financial assets | 6,769 | 205,552 | 86,657 | 254,619 | 1,031,638 | 1,585,235 |
| **Total** | 12,359,502 | 10,327,123 | 13,440,318 | 26,250,871 | 149,577,530 | 211,955,344 |

Concentration of credit risk exposures according to IFRS (9) Stages as at December 31, 2021 and 2020 is as follows:

| **2021** | Stage (1) | Stage (2) | Stage (3) | 2021 |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Palestine | 43,857,422 | - | - | 43,857,422 |
| Jordan | 10,300,575 | - | - | 10,300,575 |
| Arab countries | 58,060,652 | - | - | 58,060,652 |
| Europe | 19,411,290 | - | - | 19,411,290 |
| Others | 97,713,453 | - | - | 97,713,453 |
| **Total** | 229,343,392 | - | - | 229,343,392 |

| **2020** | Stage (1) | Stage (2) | Stage (3) | 2021 |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Palestine | 12,359,502 | - | - | 12,359,502 |
| Jordan | 10,327,123 | - | - | 10,327,123 |
| Arab countries | 13,440,318 | - | - | 13,440,318 |
| Europe | 26,250,871 | - | - | 26,250,871 |
| Others | 149,577,530 | - | - | 149,577,530 |
| **Total** | 211,955,344 | - | - | 211,955,344 |

**Classification of debt securities based on risk rating:**

**The table below analyzes the credit exposure of the debt securities using the credit rating as per the global credit rating agencies:**

| | 2021 | 2020 |
|---|---|---|
| | Financial assets at amortized cost | Financial assets at amortized cost |
| **Credit rating** | U.S. $ | U.S. $ |
| Private sector: | | |
| From A- to AAA | 146,736,985 | 158,435,032 |
| From B- to BBB+ | 31,137,589 | 33,556,728 |
| Unrated | 7,500,000 | 5,000,000 |
| Central Bank of Jordan | 5,500,745 | 5,501,323 |
| **Total** | 190,875,319 | 202,493,083 |

**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, 2021

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | 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 | 32,751,586 | - | - | 32,751,586 |
| Balances with Palestine Monetary Authority (PMA) | 36,076 | - | - | 36,076 |
| Subscription fees receivable | 3,745,507 | - | - | 3,745,507 |
| Financial assets at amortized cost | 31,541,242 | 159,011,230 | - | 190,552,472 |
| Property and equipment | - | - | 203,241 | 203,241 |
| Investment properties | - | - | 1,113,272 | 1,113,272 |
| Right-of-use Assets | - | - | - | - |
| Intangible assets | - | - | 29,569 | 29,569 |
| Other financial assets | 1,477,800 | - | - | 1,477,800 |
| **Total Assets** | 69,552,211 | 159,011,230 | 1,346,082 | 229,909,523 |
| **Liabilities** | | | | |
| Employees' end of service provision | - | 303,185 | - | 303,185 |
| Lease liability | - | - | - | - |
| Other financial liabilities | 201,084 | - | - | 201,084 |
| **Total liabilities** | 201,084 | 303,185 | - | 504,269 |
| **Equity** | | | | |
| Paid-in share capital | - | - | 14,184,814 | 14,184,814 |
| Islamic banks' reserve | - | - | 30,932,196 | 30,932, 196 |
| Commercial banks' reserve | - | - | 184,288,244 | 184,288,244 |
| **Total equity** | - | - | 229,405,254 | 229,405,254 |
| **Total liabilities and equity** | 201,084 | 303,185 | 229,405,254 | 229,909,523 |
| **Maturity gap** | 69,351,127 | 158,708,045 | (228,059,172) | - |
| **Cumulative gap** | 69,351,127 | 228,059,172 | - | - |

**Foreign currency risk**

The following table demonstrates the sensitivity of statement of income and other comprehensive income 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. $ |
| **2021** | | |
| Israeli Shekel | 10 | 137,735 |

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

**Interest rate risk**

The following table demonstrates the sensitivity of statement of income and other comprehensive income to a reasonably possible change in the interest rates on financial assets and financial liabilities bearing floating interest rates as on December 31, 2021. 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:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| 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 ncome and other comprehensive income |
| U.S. $ | 10 | 40,008 | 10 | 79,708 |

## 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. $ 229,405,254 and U.S. $ 212,022,443 as at December 31, 20201 and 2020, respectively.

### 29. Subsequent events

Subsequent to the financial statements date, a war broke out between Ukraine and Russia which affected global trade and logistics. PDIC's management assessed the impact of this war on PDIC's activities, where PDIC's management believes that there is no direct impact except for the effect on fair market value of some of PDIC's foreign investments.

The extent and duration of these effects remains unclear and depends on future developments that are currently not accurately predictable, PDIC was unable to estimate the potential impact on the date of the financial statements. Future developments may have an impact on future financial results, cash flows, financial position and investments, as well as the impact of the change in interest rates globally.

### 30. 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.