المؤسسة الفلسطينية لضمان الودائع
PALESTINE DEPOSIT INSURANCE CORPORATION

ANNUAL REPORT
التقرير السنوي
2022

المؤسسة الفلسطينية لضمان الودائع

PALESTINE DEPOSIT INSURANCE CORPORATION

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PALESTINE DEPOSIT INSURANCE CORPORATION

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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)

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 94 members,12 associates and 17 partners.

Core Principles for 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.

ABOUT **US**

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.

Mandate

The Palestine Deposit Insurance Corporation (PDIC) mandate is specified in the articles (21 and 30) of PDIC's Law No. 7 of 2013, which gives PDIC the authority to reimburse insured depositors and to liquidate member banks that have been issues a decision to liquidate it by the Palestinian Monetary Authority (PMA). This mandate is known as Pay Box Plus.

The Palestine Deposit Insurance Corporation (PDIC) has updated its Law to include Amendment No. 15 of 2021, which grants it the authority to finance the banking resolution of member banks-with the approval of the Palestinian Monetary Authority (PMA), which is the authority that has the jurisdiction to carry out banking resolution-that are experiencing disruptions or material problems that affect their financial position and threaten their breakdown. The PDIC can finance these resolutions from its own funds.

In addition, the PDIC and the PMA have set the necessary policies and measures to undertake banking reforms and handle banks that have collapsed or have a high potential for collapse. This is in line with the PDIC's goal of protecting depositors in the Palestinian banking system and ensuring the stability of the financial system

Chairman's Speech
Dr.Feras Milhem

May the peace, blessings, and mercy of Allah be upon you,

I am pleased, in person and on behalf of the member ladies and gentlemen of the Board of Directors of the Palestinian Deposit Insurance Corporation (PDIC), to present the PDIC's 9th Annual Report for the year 2022, in compliance with the policy of disclosing the most important developments and achievements of the PDIC in 2022. Doing this, I stress the vital role that the PDIC plays as an essential pillar of the effective banking protection net in Palestine, and as the backbone for protecting depositors' funds.

The crisis experienced by some USA and Swiss banks underlined the importance of the role of protection systems for depositors' funds. Fortunately, we were not affected by the difficulties faced by those international banks. At this point, I confirm that all indicators of the Palestinian banking sector show its firmness and strength. There is no doubt that the Protection System provided by the Palestinian Deposit Insurance Corporation is in line with the international standards, especially in the field of investing the PDIC's portfolio in the safest and most powerful investment tools under the supervision of a committee emanating from the Board of Directors.

The PDIC operates in a stable financial and banking environment. Performance indicators of the Palestinian banking system at the end of 2022 showed positive results. The total customer deposits by the end of 2022 amounted to approximately $16,468.2 million, while the total assets of banks operating in Palestine amounted to about $21,404.4 million. The net profits after tax for the banking system at the end of 2022 amounted to $229.2 million, compared to $177.4 million at the end of 2021, recording an increase of $51.8 million, and a growth of 29.2%, in addition to the increase in the outstanding balance of net credit facilities granted by licensed banks at the end 2022, increased by $270.8 million, or 2.6% from its level in 2021, to reach about $10,592.4 million.

Here, I point out that the banks' have continued to maintain high rates of capital adequacy, even higher than the rate set by the Palestinian Monetary Authority and international standards by 16.3% at the end of 2022, in addition to an increase in the coverage ratio of provisions to in-active facilities in the banking system to amount to 101.2% at the end of 2022, compared to its level of 94.7% recorded at the end of 2021. The percentage of non-performing facilities has decreased relative to total facilities in the banking system by 2.41%, down to about 4.05% in 2022 compared to 4.15% in the previous year.
The PDIC continued to strengthen its presence at the local and global levels. PDIC participated in many Arab and international conferences and events, enabling us to exchange experiences with the counterparts and keep abreast of the latest developments in the field of protecting depositors' funds. Such participation has contributed to enhancing financial stability and confidence in the banking system in Palestine and contributed to maintaining its stability.
In conclusion, I have the honor to invite you to review the 9th Annual Report of the Palestinian Deposit Insurance Corporation. I hope that the year 2023 will be a turning point forward in the process of developing our national economy. I emphasize my confidence in the integrity and robustness of the Palestinian banking system.

فراس ملحم

General Manager's Speech
Mr. Loay Hawash

May the peace, blessings, and mercy of Allah be upon you,

It is honored to present to you the new edition of the Palestine Deposit Insurance Corporation's (PDIC) Annual Report for 2022. The report highlights the key activities and developments that the PDIC has achieved in its commitment to attaining its vision of contributing to financial and banking stability in Palestine and enhancing public confidence in the Palestinian banking system

During 2022, Palestine Deposit Insurance Corporation (PDIC) worked to expand its mandate to include the power of financing reform measures approved by the Palestinian Monetary Authority (PMA) for member banks that may be exposed to financial crises that could impact their financial position. This is in addition to the PDIC's existing powers to liquidate failed banks and reimburse depositors for their deposits.
In early 2022, PDIC raised its flat-rate membership fees from 0.1% to 0.2% of the average of total eligible deposit. PDIC aimed to strengthen its reserves to help it against any future financial crises.

The corporation also continued to develop its indicators related to deposits and depositors during 2022. The customer's deposits subject to the provisions of the PDIC's law amounted to about $ 15,683.2 million at the end of 2022 compared to $15,667.3 million as of year-end 2021, recording an increase of 0.10%. Noting that these deposits belong to about 2,342 thousand depositors, with an average deposit of $6,697 for the year 2022 compared to 2,171 thousand depositors and an average deposit of $7,218 by the end of 2021. While the percentage of the number of depositors whose deposits are fully insured at a coverage limit of $20000 or its equivalent amount in other currencies, reached 94.23% of total depositors whose deposits are subject to the provisions of the Law at the end of 2022.

PDIC had a remarkable financial performance during year 2022, The corporation's total revenues increased by $29.8 million, and its reserves grew by 15.19% from the end of the previous year to reach $264.3 million. PDIC is committed to achieve its vision and objectives of raising public awareness of the deposit insurance system in Palestine. In 2022, the PDIC conducted a survey and found that 41% of the public was aware of the PDIC and its goals, with an increase of 43.4% from Y2019. In response, the PDIC held a series of awareness workshops and meetings for member banks, associations, and educational institutions. The PDIC also used its social media channels to publish more information about its work.

The PDIC also participated in several conferences and events, locally and internationally, this is to enhance the PDIC's strategy and objectives aimed to build an international network of relations with deposit insurance systems around the world, in order to promote its relations and experience exchange between the PDIC and its regional and international counterparts.

In 2023, PDIC will continue to work hard to achieve its vision of being a leader in the deposit insurance system. The PDIC is committed in protecting depositors and working with the Palestinian Monetary Authority (PMA) to ensure the stability of the financial and banking sector
The importance of deposit insurance systems in containing financial shocks and crises was recently demonstrated by the crisis in the United States, which resulted from the collapse of a number of large banks.

In conclusion, I would like to extend my sincere thanks to the Chairman and the members of the PDIC Board of Directors, all PDIC employees, the members of the Financial Safety Net (Palestine Monetary Authority and Ministry of Finance), all the member banks of the PDIC and the Association of Banks in Palestine.

We can assure and guarantee our commitment to continuously improve our work, both locally and internationally, in accordance with the most recent international best practices in this sector. We also remain dedicated to achieve our mission and objectives of stabilizing the Palestinian banking sector.

PDIC'S GOVERNANCE

PDIC's Governance

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

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

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.

Board of Directors

Dr.Feras Milhem

Chairman of Board of Directors of PDIC,
The Governor of Palestinian Monitory Authority

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 in 1993, he is also a member at Palestinian Bar Association.

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-time 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.

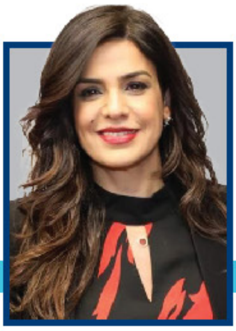
Dr. Mohammad was a member of the Board of Directors in some of public, private and official institutions .He worked on preparing and drafting many proposals, laws and regulations in several fields.

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 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 the university Vice President for Administrative and Financial Affairs during 2011-2016 and during 2021-2023. He is currently working on a book on global political economy. During 2016-2018, he was a visiting scholar at the Arab Center for Research and Policy Studies and a visiting professor at the Doha Institute for Graduate Studies. His latest research work is part of a research team with UNFPA to draw up a report on the population in Palestine until 2050. He has research relationships with the Palestinian Economic Policy Research Institute (MAS), the Institute for Democracy and Human Rights (MUWATIN), and the Chris Michelsen Institute in Norway. His research themes include tax reforms and fiscal decentralization in developing countries, issues of higher education quality and institutional performance, and poverty and inequality issues. He also works as a consultant to numerous consulting institutions for the public and private sectors in Palestine.



Ms. Rula J. Shunnar

Board member

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

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

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

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

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

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

In 2019, Rula became a board member of Trustees at An-Najah 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. 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

Ahmad Al-Sabah has held several of positions in the Ministry of Finance, including Accountant General since 2013, and Director General of the Government Property Department. During the period 2007-2008, he held the position of General Account Manager. He previously worked as a general manager of Treasury in 2003- 2007. Prior to that, he was the General Manager of payments.

Al-Sabah has represented the government and the Ministry of Finance in many national institutions, and has served on the boards of directors of several national institutions, such as Former board member of the Orphan Fund Management and Development Foundation, Supreme Council for Civil Defense and the Palestinian Electricity Transmission Ltd. Mr. Al-Sabah currently holds the following positions: Vice-Chairman of the Palestinian Financial Institute for Taxes, board member of the Palestinian National Water Transportation Company, board member of the Palestinian Satellite Company (PalSat), and board of trustees of Kadoorie University. He is currently the incumbent Accountant General.
Al-Sabah holds a Master's degree in Business Administration from Birzeit University in 2007, a Bachelor's degree in Accounting, and a Higher Diploma in Public Administration from Birzeit University.

Mr. Iyad Joudeh.

Board member

Iyad Joudeh is the founder and the Managing Director of Solutions for Development; a private consulting firm specializing in the field of economic development and business consulting.

Iyad has over 30 years of diversified experience in private sector development, business strategy and marketing. His knowledge covers many fields including financial services, manufacturing, agriculture and ICT.

During his professional career Iyad held many senior management positions including the Chief Executive Officer of Palestine Trade Center (PalTrade- The national export promotion agency), the Marketing Director of Bethlehem 2000, the General Manager of Development Resource Center and the General Director of the Economic Development Group.

Moreover, Iyad serves as a member in Bir Zeit University's Board of Trustees (the University's Treasurer), Mr. Joudeh is also a member of the Boards of Directors of the Palestine Deposit Insurance Corporation, and the Palestine Investment Fund.

He has also held several previous positions in Palestinian national institutions, including the Palestine Monetary Authority, Vice President of the Palestinian Export Council and Asala Credit Institution.

Iyad has a finance and management high Diploma through the Hubert Humphrey Fellowship Program, from Boston University and a Bachelor degree in Economics from BirZeit University.

Board Committees

1 PDIC Board Committees:

Governance Committee

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

Investment Committee

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

Audit Committee

Mr. Tareq El Masri- Chairman
Mr. Iyad Joudeh
Dr. Mohammed Al Ahmad

Risks Committee

Mr. Iyad Joudeh – Chairman
Mr. Tareq El Masri
Dr. Mohammed Al Ahmad

2 Committee(s) established by PDIC's law:

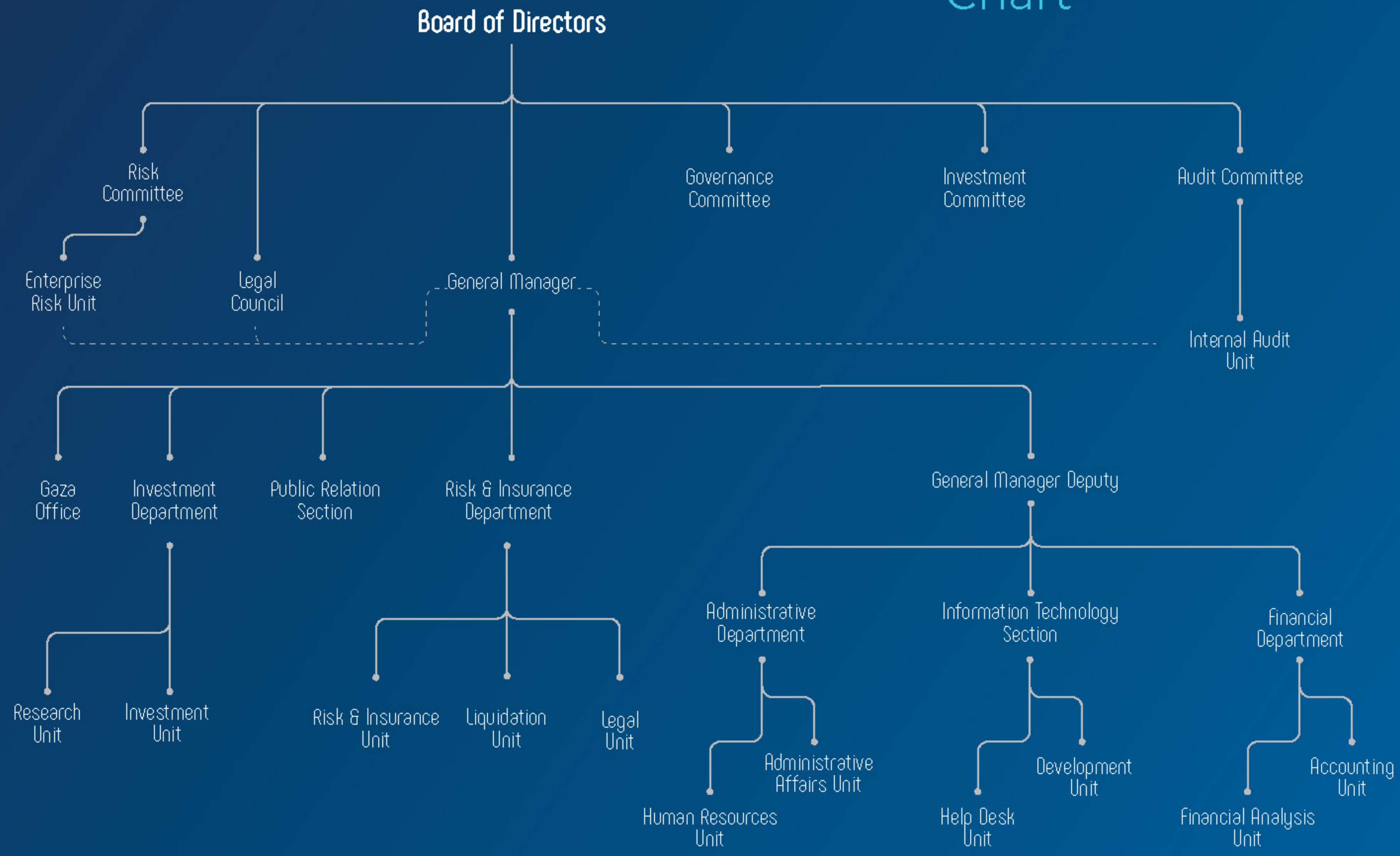
Liquidation Committee

- Mr. Loay Hawash-, General Manager / Chairman.
- Companies Controller Representative, Ministry of National Economy, Mr. Tareq Ouda allah
- PMA, Banking Supervision and Inspection and Control
- Department Representative Mr. Raed Obaid.

External Advisors chosen by PDIC Board depending on their experience and competency in accounting, audit and law:

- Financial Advisor, Samer Musleh.
- Legal Advisor, Mr. Tariq Touqan

PDIC Organization Chart



Enterprise risk management

By implementing ERM practices, PDIC can enhances their ability to effectively manage their risks and limit the negative effects of risks on their operations, which contributes to achieving the corporation's goals.

PDIC's ERM Framework sets out a risk management approach to help corporation to identify and assess the risks that they face. In addition, provides employees with the information needed to manage risk effectively. By making risk management a daily part of everyone's work and help to protect their future goals and strategies.

PDIC are working to develop and implement ERM effectiveness framework, that includes the best methodologies, tools, approaches and systems to enhance ERM capabilities, and will help ERM identify the attributes that will make ERM effective, measurable, and provide corporation with the roadmap to continuously improve our ERM practices and risk culture.

The enhancements strengthened PDIC's existing ERM processes, policies, tools, training and reporting in order to support the Corporation on an ongoing basis and to protect it from potential losses.

DEPOSIT **INSURANCE SYSTEM** IN PALESTINE

Deposit Insurance
System in Palestine

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.

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

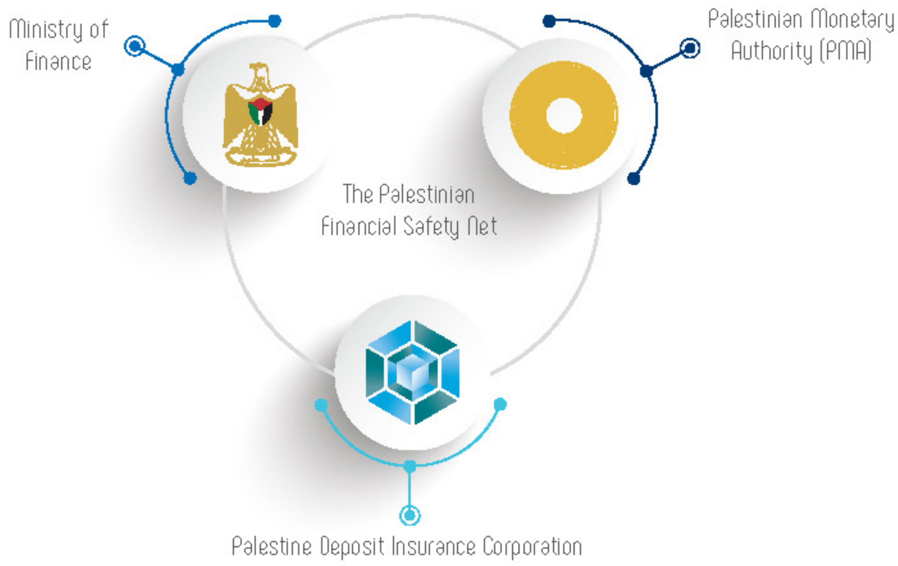
The Palestine Deposit Insurance Corporation (PDIC) is a critical component of the Palestinian financial safety net. It is essential for the efficient operation of the financial system because it protects depositors from losing their money in the event of a bank collapse. This helps to promote economic growth and financial stability by ensuring that depositors have confidence in the banking system.

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

The Palestinian Financial Safety Net

The Palestine Deposit Insurance Corporation (PDIC) plays a vital role in the banking sector by liquidating troubled banks, financing corrective measures which approved by the Palestinian Monetary Authority (PMA), and compensating depositors' funds. The Corporation consistently strives to comply with all international standards and principles.

Figure (1):The Palestinian Financial Safety Net



PDIC Executive and Administrative Staff

PDIC had 19 employees at the end of 2022 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.

Administrative department

The administrative department specializes in human resources, which is considered the most important resource for the organization to achieve its strategic goals and vision. The department's main goal is to attract and develop employees' skills through enrolling them in various training courses, workshops, and conferences held annually at the international level. 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. This is to enhance employees' competencies and creativity, as well as raise their productivity and loyalty.

Finance Department

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

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.

This department is mainly responsible for following up the fee collection from member banks. It is also charged with preparing the risk-based fee collection system. This department 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.

This department 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.

Investment Department

This department is responsible for providing data and information needed to support the planning and development of processes in PDIC.

This department is responsible for investing the PDIC's resources within a carefully considered investment policy and strategy approved by its Board of Directors.

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 by utilizing the most recent information technology advancements in the world that support the work environment.

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.

Gaza Office

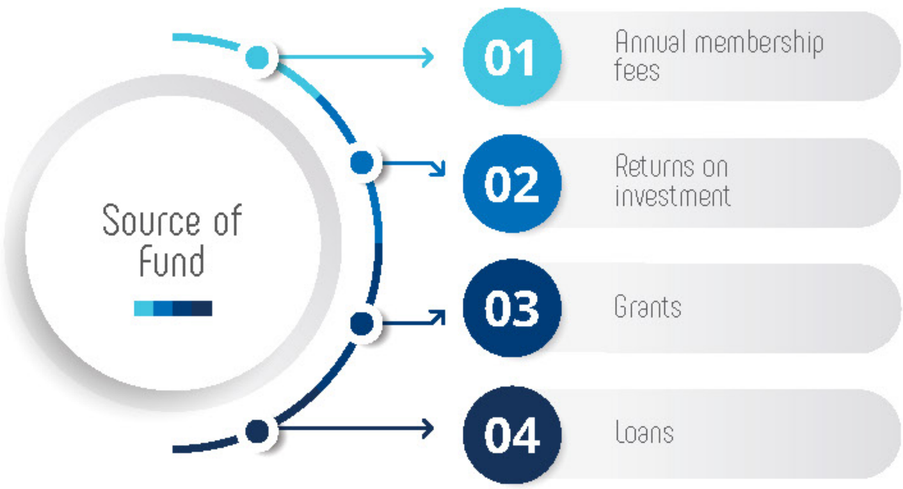
Gaza office implements and enforces PDIC's policies; it is the corporation's representative in Gaza Strip. The office promotes public awareness of the Palestinian deposit insurance system in terms of establishment of PDIC and its goals. In addition, the office holds workshops and represents PDIC in many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

The key features of Palestine deposit Insurance Corporation

Equity of Deposit Insurance System and Financing Sources

PDIC's Equity is comprised 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, in addition to the returns on investments of the deposit insurance funds.

Figure (2): Financing Sources of the Deposit Insurance System in Palestine



Moreover, the Corporation may accept financial grants from any entity approved by its Board, and may borrow if its financial resources fall short to meet its financial obligations.

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 2022. Seven, which are local, and six are foreign banks.

Membership Fees

The member bank is required to pay the membership fees on a quarterly basis. The membership fees equals an annual rate of 0.2% of the average of 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 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.

The PDIC's main functions

1 Depositors Reimbursement

PDIC becomes legally responsible for reimbursing insured depositors of that bank once the PMA publish the decision of liquidate a member bank. PDIC is obliged to compensate depositors in accordance with the specified coverage limit within 30 days from the date of the depositor's filling of his claim. The coverage limit for each depositor is calculated on all of their 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 Liquidation process

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.

3 Reserves Management

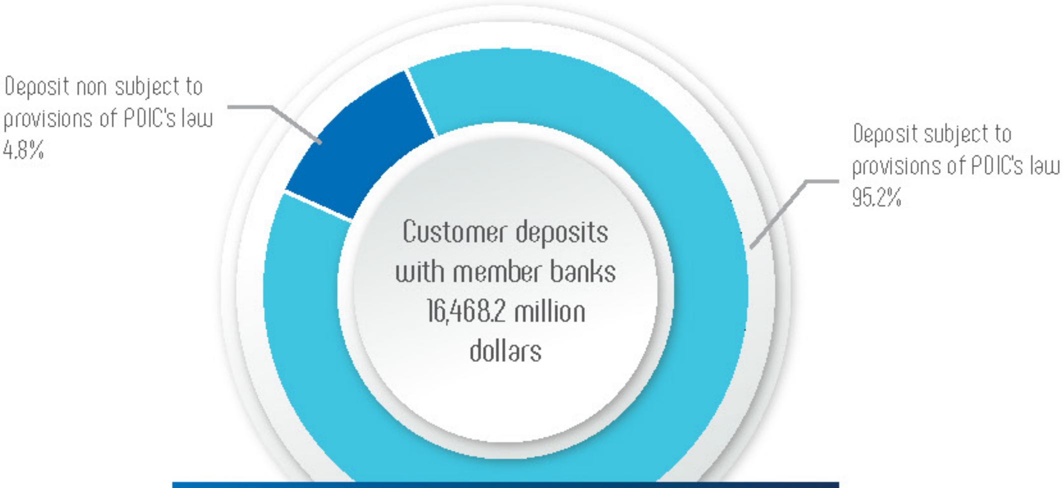
PDIC exerts every effort to grow its reserves to ensure the protection of depositors' rights with member banks. Hence, it aims to establish reserves of not less than 3% of total deposits subject to the provisions of its Law. The sources of reserves are membership fees that are collected from member banks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

PDIC'S **PERFORMANCE** DURING 2022

Deposits subject to the provisions of the Law

Total deposits subject to the provisions of the law amounted to about 15,683.2 million USD at the end of 2022, compared to 15,667.3 million USD at the end of 2021, registering an increase of 0.10%. These deposits belong to about 2,342 thousand depositors with an average value of deposits of 6,697 USD in 2022 compared to 2,171 thousand depositors with an average deposit value of 7,218 USD in 2021.

Figure (3): Deposits Subject to the Provisions of the Law



Deposits subject to the provisions of the law constituted 95.2 percent of total deposits held by member banks by end of 2022.

Fully- insured deposits

Fully insured deposits in accordance with the law - deposits with a balance less than or equal to 20,000 USD or its equivalent in other currencies - constituted 21.98 % of total deposits subject to the provisions of the law by the end of 2022, amounting to $ 3.447 million. They belong to 2,207 thousand depositors with an average deposit value of 1,562 USD compared to 3,280.2 million USD belong to 2,033 thousand depositors with an average deposit value of 1,613 USD by the end of 2021. The percentage of fully insured depositors was 94.23 % of total depositors whose deposits are subject to the provisions of the Law by the end of 2022.

The percentage of fully insured depositors reached 94.23 percent of total depositors whose deposits are subject to the provisions of PDIC's Law by the end of 2022

Fully insured deposits represented 21.98 percent of total deposits subject to the provisions of PDIC's Law by the end of 2022.

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 12,236.2 million USD by the end of 2022, compared to 12,387.1 million USD by the end of 2021, constituting 78.02% of total deposits subject to the provisions of the Law by the end of 2022.

These deposits belong to about 135 thousand depositors, constituting 5.77% of total depositors whose deposits are subject to the provisions of Law, with an average deposit value of 90,483 USD by the end of 2022, compared to 137 thousand depositors with an average deposit value of 90,183 USD by the end of 2021.

The percentage of partially insured depositors represented 5.77 percent of total depositors whose deposits are subject to the provisions of PDIC's Law by the end of 2022

Partially insured deposits represented 78.02 percent of total deposits subject to the provisions of PDIC's Law by the end of 2022

Prompt Reimbursement

The concentration of prompt reimbursement amount with the largest bank was 23.22% percent by the end of 2022, 44.11% for the two largest banks and 54.33% for the three largest banks.

Membership Fees

Membership fees from member banks increased by 108.1%, or $15.4 million, to reach $29.8 million at the end of 2022. This was due to the increase in the fixed membership fee rate from 0.1% to 0.2% on January 1, 2022. In contrast, membership fees decreased by 34.3%, or $7.47 million, to $14.3 million during 2021 due to the decrease in the fixed membership fee rate from 0.2% to 0.1%.

Table (1): Main Indicators of deposits and depositors at member banks (2015-2022)

Indicators	15 Dec	16 Dec	17 Dec	18 Dec	19 Dec	20 Dec	21 Dec	22 Dec	Growth rate
Total deposits at member banks (USD million)	9,654.2	10,604.7	11,982.5	12,227.3	13,384.7	15,138.3	16,519.0	16,468.2	-0.3%
Total depositors at member banks (in thousand)	1,460	1,536	1,604	1,636	1,730	1,806	2,180	2,350	7.8%
Average deposit value for total depositors at member banks (USD)	6,612	6,902	7,472	7,474	7,735	8,384	7,577	7,006	-7.5%
Deposits subject to provisions of the law (USD million)	8,936	9,713	11,099	11,516	12,726	14,483	15,667	15,683	0.1%
Number of depositors whose deposits are subject to the provisions of the law (in thousand)	1,455	1,531	1,590	1,630	1,724	1,797	2,171	2,342	7.9%
Average deposit value for depositors whose deposits are subject to the provisions of the law (USD)	6,141	6,343	6,980	7,064	7,383	8,060	7,218	6,697	-7.2%
Deposits subject to the provisions of the law to total deposits at member banks (%)	92.6%	91.6%	92.6%	94.2%	95.1%	95.7%	94.8%	95.2%	0.4%

Indicators	15 Dec	16 Dec	17 Dec	18 Dec	19 Dec	20 Dec	21 Dec	22 Dec	Growth rate
Prompt reimbursement amount (USD million)	2,619	2,839	4,412	4,490	4,871	5,459	6,027	6,152	2.1%
Fully insured deposits (all deposits that are less than or equal to the coverage limit) (USD million)	1,301	1,382	2,459	2,592	2,760	3,136	3,280	3,447	5.1%
Number of fully insured depositors (in thousand)	1,324	1,386	1,493	1,535	1,618	1,681	2,033	2,207	8.5%
Average deposit value for fully insured depositors (USD)	983	997	1,648	1,688	1,706	1,866	1,613	1,562	-3.2%
Partially insured deposits (all deposits that are in excess of coverage limit) (USD million)	7,635	8,331	8,640	8,924	9,966	11,347	12,387	12,236	-1.2%
Number of partially insured depositors (in thousand)	132	146	98	95	106	116	137	135	-1.5%
Average deposit value for partially insured depositors (USD)	57,962	57,174	88,482	94,020	94,435	97,681	90,183	90,483	0.3%
Fully insured deposits to total deposit subject to the provisions of the law (%)	14.56%	14.23%	22.16%	22.51%	21.69%	21.65%	20.94%	21.98%	4.98%
Partially insured deposits to total deposit subject to the provisions of the law (%)	85.4%	85.8%	77.8%	77.5%	78.3%	78.35%	79.06%	78.02%	-1.32%
Number of fully insured depositors to total depositors whose deposits are subject to provisions of the law (%)	90.9%	90.5%	93.9%	94.2%	93.9%	93.54%	93.67%	94.23%	0.59%
Number of partially insured depositors to total depositors, whose deposits are subject to the provisions of the law (%)	9.1%	9.5%	6.1%	5.8%	6.1%	6.5%	6.3%	5.8%	-8.7%
Concentration of prompt reimbursement amount (the largest two banks) (%)	46.40%	45.22%	45.58%	44.64%	44.59%	44.12%	43.54%	44.11%	1.31%
Concentration of prompt reimbursement amount (the largest three banks) (%)	56.70%	53.32%	54.02%	54.49%	55.23%	54.73%	54.39%	54.33%	-0.11%

PDIC Investment

- In 2022, the net profit from investment was 5,937,578.93 USD, up 24.87% from the previous year's value of 4,754,923.18 USD, with a return on investment of 2.34%, up 9.76% from 2021's 2.13%.

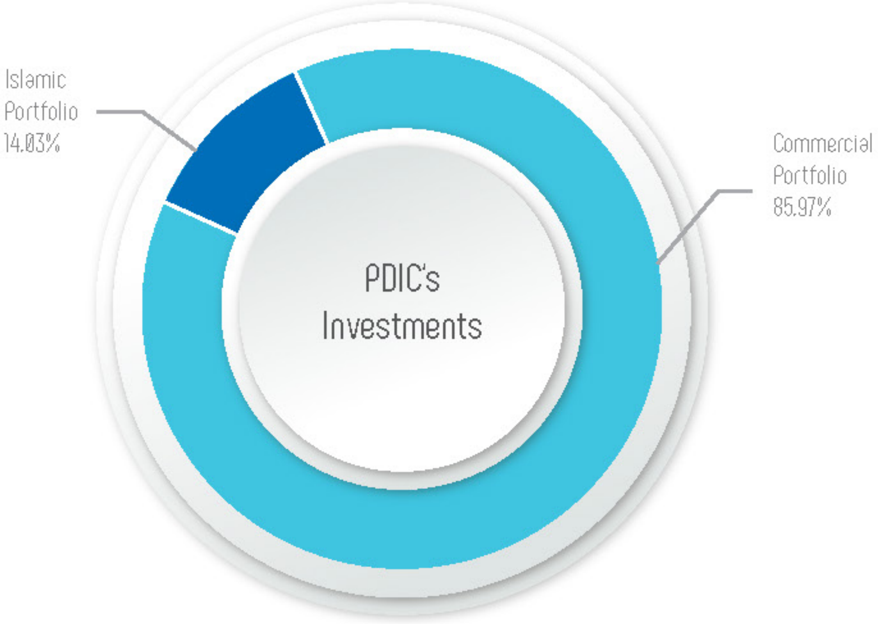
- The total investment portfolio increased by 13.77% from 223,046,600 at the end of 2021 to 253,753,625 at the end of 2022.

- The total net profit for the bonds portfolio in 2022 was $5,424,085.87 USD, with a 2.17% average return on investment, which was divided as follows:

  - A total net profit of $4,882,612.33 USD in the Commercial portfolio.
  - A total net profit of 541,473.54 USD in the Islamic portfolio.

- The total net profit from deposit investing was 513,493.06 USD, 333,702.30 USD for the Commercial portfolio, and 179,790.76 USD for the Islamic portfolio.

Figure (4): Investment Portfolio



Public awareness
about deposit insurance system

Principle No. (10) is one of the core principles and compliance assessment issued by International Association of Deposit Insurers (IADI), which states:

> Public awareness: In order to protect depositors and contribute to financial stability, it is essential that the public must be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.

One of the corporation's main objectives is to raise the level of public awareness of the deposit insurance system in Palestine, where the corporation works annually to develop and implement awareness campaigns for the Palestinian public about the corporation and the importance of its existence. The corporation prepares these campaigns according to market survey based on a scientific methodology, statistical behaviors and samples according to demographic characteristics and the region, to measure the public awareness about the corporation and the importance of its role from the community's point of view. Earlier in the year 2022, the corporation carried out a field survey study for the Palestinian market, where the index of the public awareness and knowledge of the institution reached 41%. Following the statistics, recommendations and conclusions drawn from the data analysis, the corporation launched its awareness campaign for the last third of 2022, which will continue during 2023.

In order to enhance the bonds of cooperation between the corporation and its counterparts, and in order to exchange and gain experiences and to build and maintain the network of international relations with other deposit insurance institutions, the Corporation participated in several local, regional and international conferences, events and workshops during the year 2022. The most important of which is the International Annual Conference of International Association of Deposit Insurers (IADI); where these participations are essential to develop the work of the organization and its employees in order to achieve its objectives and core values.

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 2024, 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%

Medium-Term Key Indicators

Table (2): Medium-Term Key Indicators

Item	Actual		Expected			
	2021	2022	2023	2024	2025	2026
Deposit subject to the provisions of PDIC's law (USD million)	15,667.3	15,683.2	17,057.1	18,551.3	20,176.3	21,943.8
Prompt reimbursement amount (USD million)	6,027.3	6,151.6	6,316.1	6,486.3	6,662.6	6,845.2
PDIC's reserves (USD million)	229.41	264.26	306.04	352.09	402.80	458.61
PDIC's reserves to deposits subject to the provisions of the law (%)	1.464%	1.685%	1.794%	1.898%	1.996%	2.090%
PDIC's reserves to Prompt reimbursement amount (%)	3.8%	4.3%	4.8%	5.4%	6.0%	6.7%
PDIC's reserves to targeted reserve (%)	48.8%	56.2%	59.8%	63.3%	66.5%	69.7%
Prompt reimbursement amoutn to deposits subject to the provisions of the law (%)	38.5%	39.2%	37.0%	35.0%	33.0%	31.2%

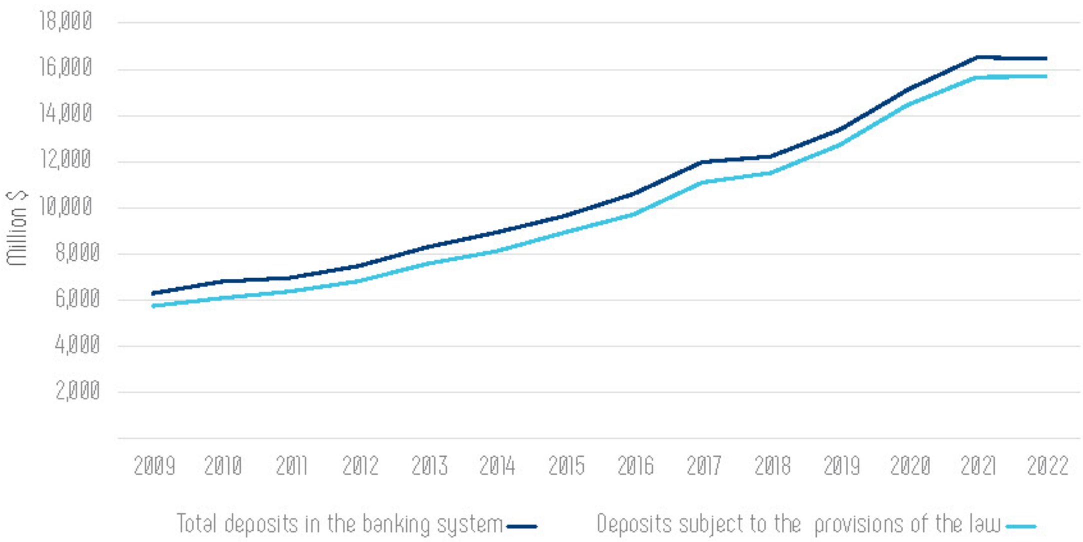
PALESTINIAN **BANKING SECTOR INDICATORS** FOR 2022

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 2022 compared to 2021. Following is a summary of the most important improvements in performance indicators[1]:

1 Total Deposits

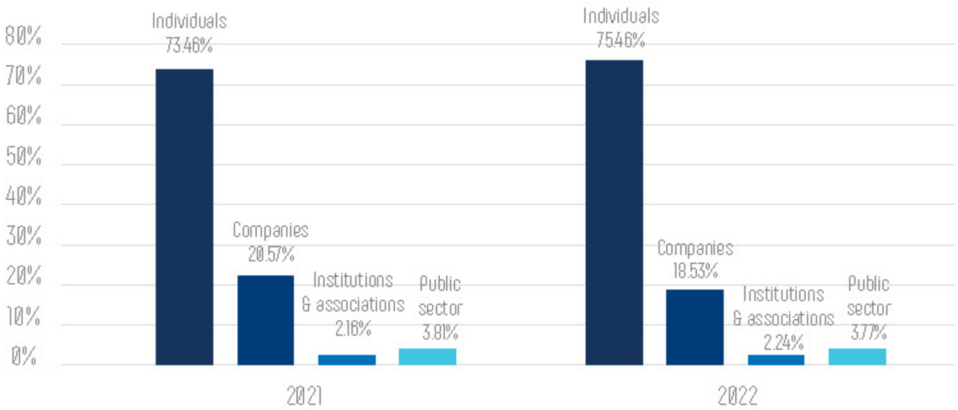
Total customer deposits in the Palestinian banking sector amounted to 16,468.2 million USD at the end of 2022, compared to 16,519 million USD at the end of 2021, indicating an decreased of 50.8 million USD or 0.31%. In comparison, deposits increased by 9.12% equivalent to 1,380.7 million USD during 2021.

Figure (5): Historical development of deposits in the banking system (2009 - 2022)



1 Preliminary data issued by the Palestine Monetary Authority

Figure (6): Distribution of Deposits by Sector (2021 - 2022)



In 2022, the share of individuals, and the institutions, associations sector in total deposits increased by 75.46% and 2.24%, respectively. Compared to 73.46% and 2.16% in 2021. On the other hand, the share of companies and the public sector decreased in total deposits during the same period

Table (3): Distribution of deposits in the banking system across various sectors (million Dollars) and growth rates (2021-2022)

	Individuals	Companies	Institutions & associations	Public sector
2021	12,134.9	3,398.6	356.7	628.8
2022	12,426.4	3,051.8	369.0	621.0
Growth rates	2.4%	-10.2%	3.5%	-1.2%

Individuals' deposits represented 75.46 percent of total deposits in the banking system by the end of 2022

Table (4): Distribution of customer deposits by currency and their growth rates (million Dollars) 2021-2022

	NIS deposits	JD deposits	USD deposits	Deposits in other currencies
2021	5,918.1	3,617.4	6,513.3	470.1
2022	6,780.3	3,334.3	5,912.4	441.1
Growth rates	14.6%	-7.8%	-9.2%	-6.2%

Table (5): Development of deposits and depositors in Commercial banks versus Islamic banks (2014-2022)

Year	Deposits (in $ Million)		The number of depositors (in $ Million)		Total	
	Commercial banks	Islamic banks	Commercial banks	Islamic banks	Deposits (Million $)	Depositors (in thousands)
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
2022	13,524	2,944	1,822	528	16,468	2,350

By the end of 2022, deposits held by commercial banks accounted for the lion's share of 82.1% of total deposits, compared to 81.9% at the end of 2021, indicating a increase of 0.3 percent. In contrast, deposits held with Islamic banks accounted for 17.9% of total deposits at the end of 2022 compared to 18.1% at the end of 2021, reflecting an decrease of 1.2%.

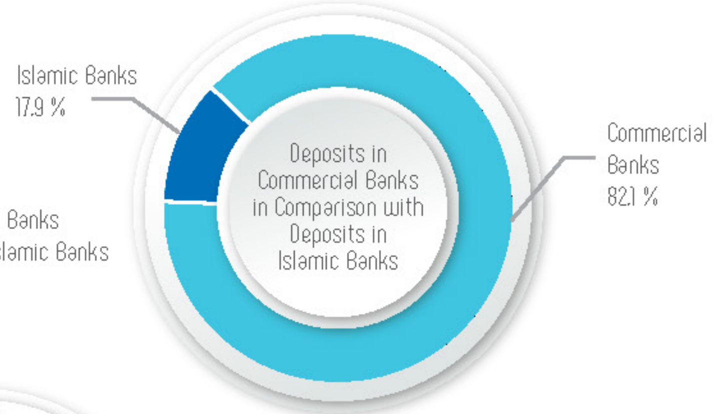


Figure (7): Deposits in Commercial Banks in Comparison with Deposits in Islamic Banks

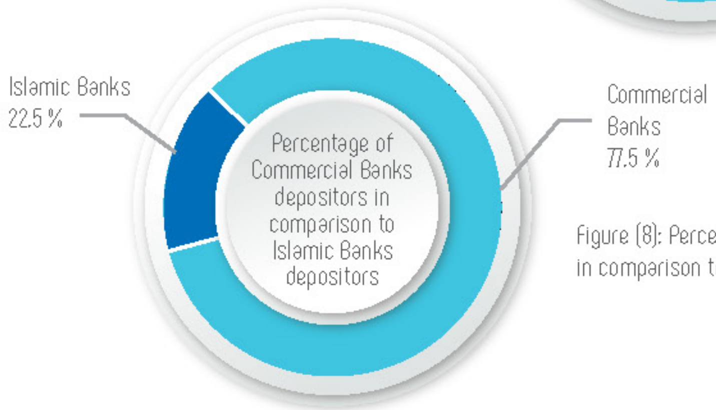


Figure (8): Percentage of Commercial Banks depositors in comparison to Islamic Banks depositors

The percentage of depositors with commercial banks increased by 0.5%, representing 77.5% of the total depositors at the end of 2022, compared to 77.2% at the end of 2021.

2 Credit Facilities Portfolio

- Direct (net) credit facilities amounted to about 10,592.4 million USD at the end of 2022 compared to 10,321.5 million USD at the end of 2021, indicating an increase of 270.8 million USD or 2.6%. These facilities accounted for 49.5% of total assets at the end of 2022, compared to 47.6% at the end of 2021.

- Off balance sheet items (indirect credit facilities) of the banking system amounted to about 1,779.7 million USD at the end 2022 compared to 1,664.6 million USD at the end 2021, indicating a increase of USD 115 million or 6.9%. These indirect credit facilities accounted for 8.3% of total assets at the end of 2022 compared to 7.7% at the end of 2021.

3 Non-performing loans

- The ratio of non-performing loans to total direct credit facilities decrease by 2.41%. The percentage was 4.05% for banks operating in Palestine at the end of 2022, compared to 4.15% at the end of 2021.

- The coverage ratio of provisions for non-operating facilities was about 101.2% for banks operating in Palestine at the end of 2022, compared to 94.7% at the end of 2021, an increase of 6.8%.

- Credit facilities granted to related parties increased to total credit facilities by 5.2%, reaching 4% at the end of 2022, compared to 3.8% at the end of 2021.

Key Performance
Indicators of the banking sector

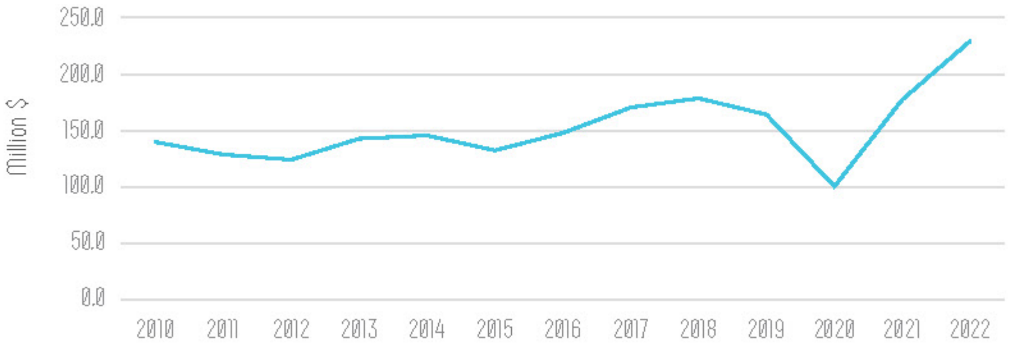
1 Capital Adequacy Ratio

The capital adequacy ratio for the overall banking system was about 16.3% at the end of 2022 compared to 16.2% at the end of 2021.

2 Profitability

- As for the income statement, the net profit after taxes for the banking system at the end of 2022 was 229.2 million USD, compared to 177.4 million USD at the end of 2021, registering an increase of 51.8 million USD, equivalent to 29.2%.
- The net profit after taxes to the total assets of the banking system amounted to 1.07% at the end of 2022, compared to 0.82% at the end of 2021.
- The net profit after taxes to the first tier of the banking system's capital amounted 12.79% at the end of 2022, compared to 10.61 % at the end of 2021.

Figure (9): Net income for banks operating in Palestine (2010 -2022)



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 2022:

1. Number of branches and representative offices

The number of branches and representative offices of banks operating in Palestine fixed at the end of 2022 to 378, compared to 379 at the end of 2021.

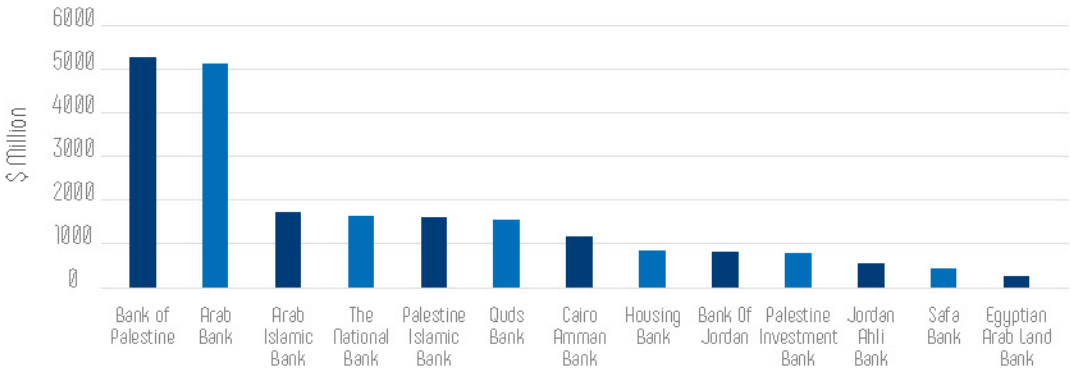
2. Structure of assets and liabilities

- Total assets of banks operating in Palestine amounted to around 21,404.4 million USD at the end of 2022 compared to 21,672.9 million USD by the end of 2021, decreasing by 268.5 million USD or 1.2% decrease, compared to an increase by 1,786.7 million USD or a 9% increase during 2021.

- Total liabilities for banks operating in Palestine amounted to about 19,174.8 million USD by the end of 2022 compared to 19,572.8 million USD by the end of 2021, decreasing by USD 398.1 million, or an decrease of 2 %, compared to an increase of 1,654 million USD or a 9.2% increase during 2021.

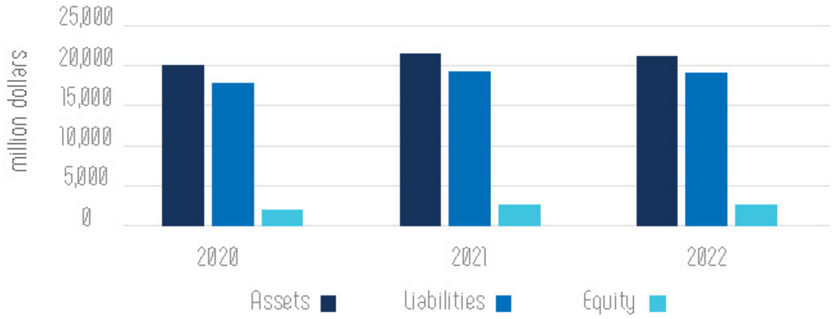
- Total owners' equity of banks operating in Palestine amounted to around 2,229.6 million USD by the end of 2022 compared to 2,100 million USD by the end of 2021, increasing by 129.6 million USD or 6.2 % increase, compared to increase of 132.6 million USD or a 6.7% increase during 2021.

Figure (10): Total Assets of Banks Operating in Palestine, by the end of 2022



Member banks' investments in financial assets (stocks and bonds inside Palestine and abroad) amounted to about 1,481.9 million USD by the end of 2022 compared to 1,476.6 million USD by the end of 2021, indicating an increase of 5.3 million USD or 0.36%. Investments represented 6.92% of total assets in 2022 compared to 6.8% by the end of 2021.

Figure (11): Change in Total assets, liabilities and Equity of Banks Operating in Palestine (2020 – 2022)



Key Financial Performance Indicators for Member Banks

Table (6): Key Financial Performance Indicators (2020 - 2022)

Ratio	2020	2021	2022
Credit facilities (net) to total assets	48.8%	47.6%	49.5%
Investments in financial assets 'stocks and bonds inside palestine and abroad" to total assets	6.8%	6.8%	6.9%
Non-performing facilities to total facilities	4.24%	4.15%	4.05%
Capital adequacy ratio	15.62%	16.17%	16.29%
Return on total assets (after tax)	0.51%	0.82%	1.07%

Table (7): Banks operating in Palestine, by the end of 2022

Operating banks in Palestine by the end of 2022	Year Of Establishment	Number of Branches & offices by the end of 2022	Total assets by the end of 2022 (USD million)
Local Banks			
Bank of Palestine	1960	72	5,174
Arab Islamic Bank	1996	29	1,723
The National Bank	2006	35	1,618
Palestine Islamic Bank	1997	43	1,584
Quds Bank	1995	39	1,530
Palestine Investment Bank	1995	21	776
Safa Bank	2016	9	421
Foreign Banks			
Arab Bank	1994	33	5,049
Cairo Amman Bank	1986	22	1,144
Housing Bank	1995	15	824
Bank Of Jordan	1994	43	785
Jordan Ahli Bank	1995	10	540
Egyptian Arab Land Bank	1994	7	236

Figure (12): Bank Branches and Representative Offices by the End Of 2022

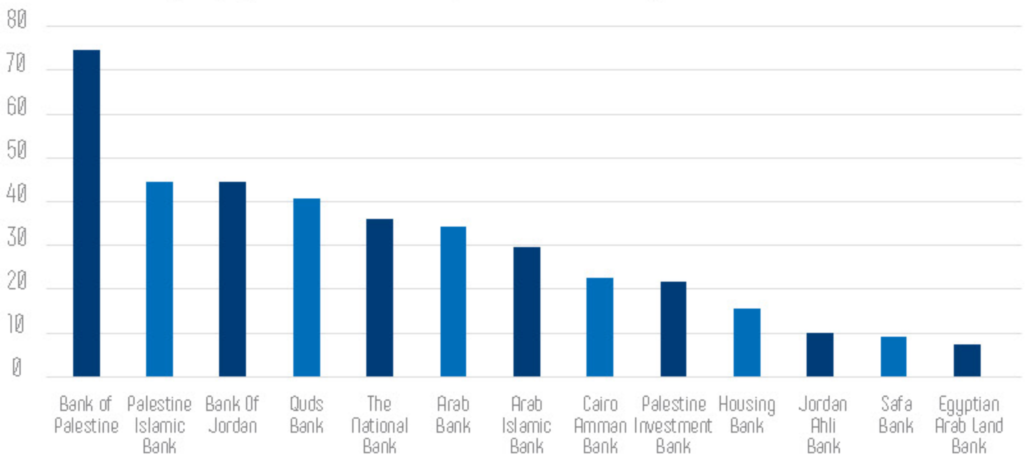


Table (8): Geographical Distribution of Gross Customer Deposits and Gross Direct Facilities by Region (USD Million)

Region	2021		2022	
	Gross Direct Facilities	Gross Customer Deposits	Gross Direct Facilities	Gross Customer Deposits
Ramallah	5,956	5,700	6,097	6,335
AL-Ram	112	635	134	550
AL-Azaria	235	598	234	548
Bethlehem	515	1,170	529	1,195
Beit Jala	47	116	40	93
Beit Sahour	14	41	20	41
Hebron	664	1,636	718	1,526
Jericho	197	224	213	299
Tol Karem	209	777	222	698
Nablus	1,187	2,237	1,153	1,926
Salfeat	88	240	77	205
Topass	53	132	58	122
Qalqeliya	121	322	139	333
Jenine	409	1,139	431	1,057
West Bank	9,806	14,966	10,065	14,930
Gaza	624	1,032	623	993
Khan Younis	75	181	79	195
Rafah	61	86	66	89
Dear AL-balah	51	49	58	52
AL-Nosirat	65	106	80	91
Jabalia	62	98	67	101
Beit Lahiya		0	8	18
Gaza Strip	938	1,553	981	1,538
Grand Total	10,744	16,519	11,045	16,468

*Data Source: PMA

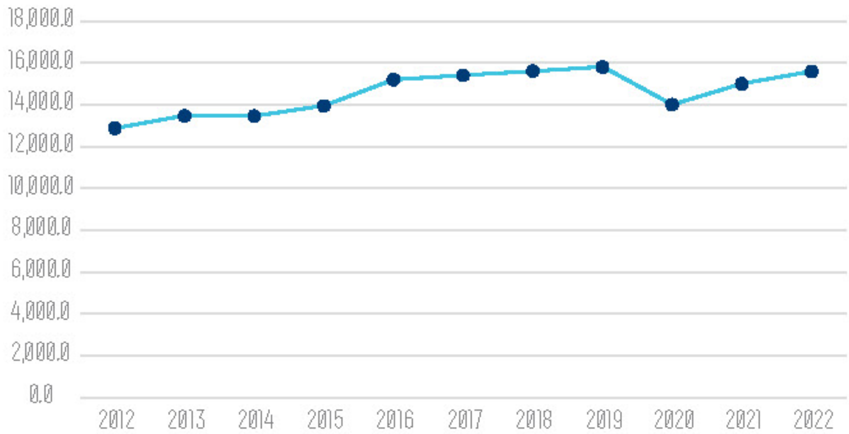
PALESTINIAN **ECONOMIC INDICATORS** FOR 2022

This section of the report will present the most important macroeconomic indicators for the year 2022. These indicators will be used to assess the performance of the Palestinian economy during this year. The indicators include[2]:

1. Gross Domestic Product (GDP)

The Palestinian economy witnessed increased by 3.93% in 2022 compare to 2021, to reach about 15,612.5 million USD, due to the boost in the Agriculture sector, Forestry and Fishing, Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles, Construction, Public Administration and Defense.

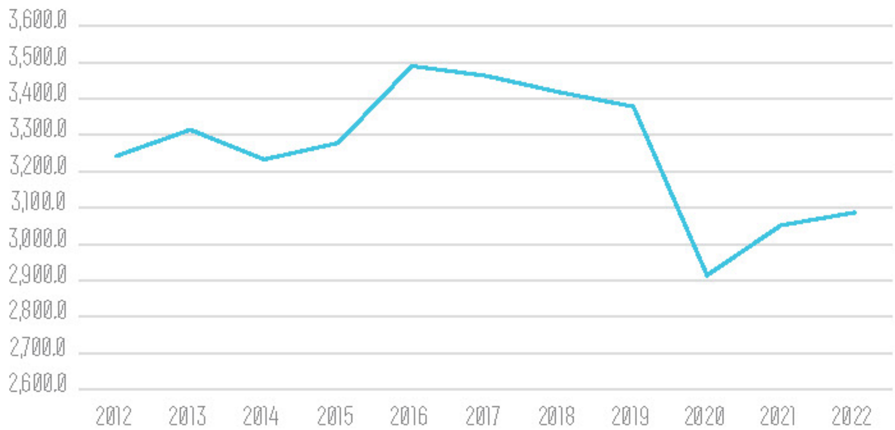
Figure (13): GDP in Palestine (2012 – 2022)



2. GDP Per Capita

GDP per capita is used as a measure of the standard of living in the economy. GDP per capita increased by1.36% compared to 2021, to reach 3,086.8USD

Figure (14): GDP per Capita in Palestine (2012 - 2022)



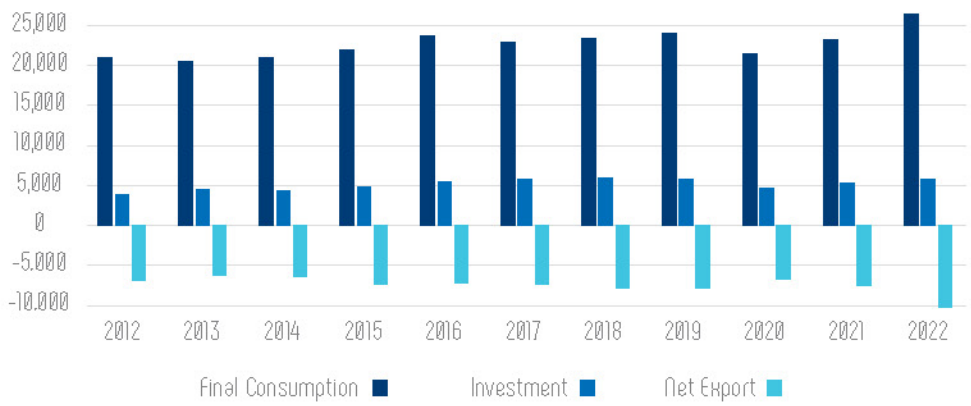
2 Preliminary data issued by Palestine Central Bureau of Statistics-base year 2015-.

3. Aggregate Demand

The major components of aggregate demand (consumer spending, government spending, investment and net exports) grew at varying rates during 2022 in all its components. The final consumer spending increased by 13.9% compared to the previous year, and the investment growth rate increased by 11.3 %.

With regard to the trade deficit, exports raised by 6.2 %, and imports increased by 25.6 % compared to the previous year.

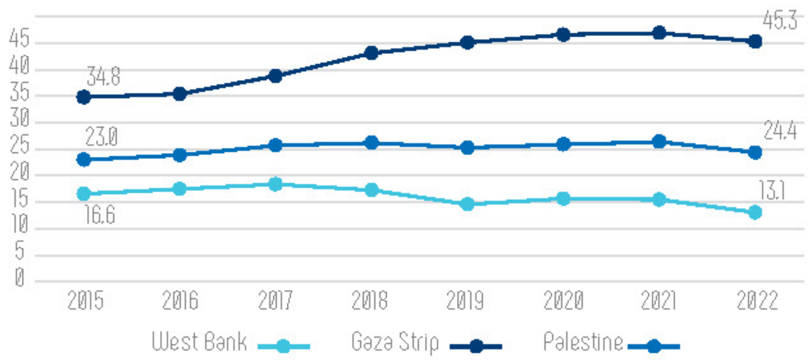
Figure (15): Aggregate Demand in Palestine (2012 - 2022)



4. Labor Market Indicators

Unemployment rate among labour force participants in Palestine reached 24% in 2022, and the total labour underutilization reached 31%. There is still a wide gap in unemployment rate between the West Bank and Gaza Strip, as this rate reached 45% in Gaza Strip compared to 13% in the West Bank. On gender level, unemployment rate for females reached 40% compared to 20% for males in Palestine[3].

Figure (16): Unemployment Rate in Palestine (2015-2022)



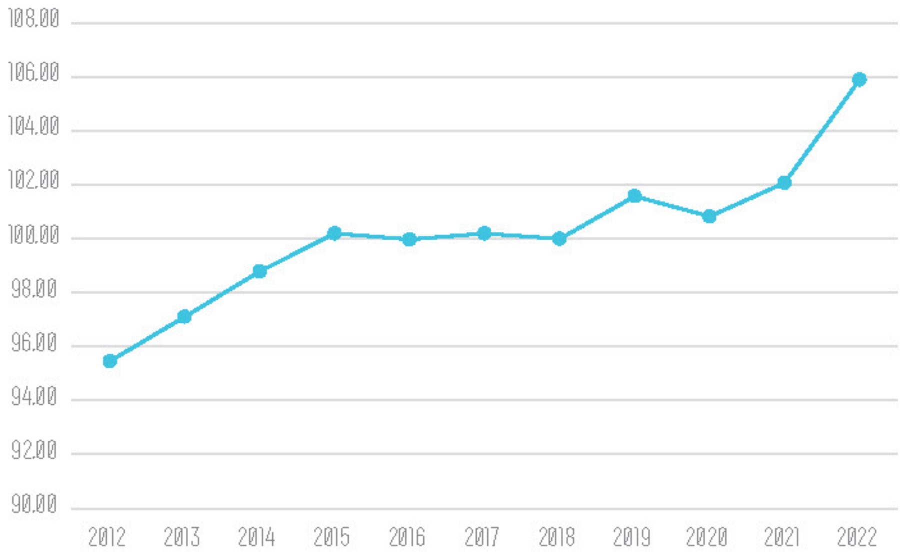
The number of unemployed was 367 thousand in 2022 (239 thousand in Gaza Strip and 128 thousand in the West Bank). Total labour underutilization was 500 thousand persons including 56 thousand discouraged jobseekers and 22 thousand in time-related underemployment.

3 Labor force report, Palestinian Central Bureau of Statistics, 2022

5. Consumer Price Index

The Consumer Price Index (CPI) is a statistical tool that measures the average changes in the prices of goods and services that households consume over time. The CPI in Palestine increased by 3.74% in 2022 compared to 2021, reaching a value of 105.90. This means that the prices of goods and services in Palestine were 3.74% higher in 2022 than they were in 2021[4].

Figure (17): Annual Consumer Price Index Number (1996 – 2022)
Base Year (2018 = 100)



4 Palestinian Central Bureau of Statistics, Consumer Price Index, 2022.

FINANCIAL
STATEMENTS

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Building a better working world

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, 2022, 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, 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of PDIC in accordance with the International 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 PDIC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PDIC or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Building a better working world

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

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

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

Ernst & Young – Middle East
License # 206/2012

Abdelkarim M.
Ernst + Young

Abdelkarim Mahmoud
License # 101/2017

Ramallah - Palestine
July 3, 2023

STATEMENT OF FINANCIAL POSITION
As at December 31, 2022

	Note	2022 U.S. $	2021 U.S. $
Assets			
Cash on hand and balances at banks	3	4,892,458	32,751,586
Balances with Palestine Monetary Authority (PMA)	4	172	36,076
Subscription fees receivable	5	7,539,906	3,745,507
Financial assets at amortized cost	6	249,101,083	190,552,472
Property and equipment	7	97,976	203,241
Investment properties	8	1,113,272	1,113,272
Intangible assets	9	15,448	29,569
Other assets	10	1,875,603	1,477,800
Total Assets		264,635,918	229,909,523
Liabilities and Equity			
Liabilities			
Employees' end of service provision	11	236,132	303,185
Other liabilities	12	143,524	201,084
Total liabilities		379,656	504,269
Equity			
Paid-in capital	1	14,184,814	14,184,814
Islamic banks' reserve	13	37,455,913	30,932,196
Commercial banks' reserve	13	212,615,535	184,288,244
Total equity		264,256,262	229,405,254
Total Liabilities and Equity		264,635,918	229,909,523

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

	Note	2022 U.S. $	2021 U.S. $
Revenues			
Subscription fees revenues	14	29,801,361	14,321,443
Revenues, interest on deposits and bonds, net	15	5,937,579	4,754,923
Deferred revenues recognized	12	55,853	35,465
Other revenues		404	16,934
Gross revenues before expected credit losses provisions		35,795,197	19,128,765
Recovery (provision) for expected credit losses, net	3,6,18	410,861	(472,687)
Net revenues after expected credit losses provisions		36,206,058	18,656,078
Expenses			
Employees' expenses	16	(721,113)	(896,406)
General and administrative expenses	17	(281,223)	(222,613)
Depreciation and amortization	7,9	(80,476)	(142,021)
Finance costs related to lease liabilities		-	(8,241)
Currency variances losses		(272,238)	(3,986)
Total expenses		(1,355,050)	(1,273,267)
Income for the year		34,851,008	17,382,811
Other comprehensive income items		-	-
Total comprehensive income for the year		34,851,008	17,382,811

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

	Paid-in capital	Islamic banks' reserve	Commercial banks' reserve	Retained earnings	Total equity
2022	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance, beginning of the year	14,184,814	30,932,196	184,288,244	-	229,405,254
Total comprehensive income for the year	-	-	-	34,851,008	34,851,008
Transferred to reserves (Note 13)	-	6,523,717	28,327,291	(34,851,008)	-
Balance, end of the year	14,184,814	37,455,913	212,615,535	-	264,256,262

	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
Transferred to reserves (Note 13)	-	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

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

	Note	2022 U.S. $	2021 U.S. $
Operating activities			
Income for the year		34,851,008	17,382,811
Adjustments for:			
Depreciation and amortization		80,476	142,021
Finance costs related to lease liabilities		-	8,241
Employees' end of service provision		33,806	80,076
(Recovery) Provision for expected credit losses, net		(410,861)	472,687
Gains on disposal of lease liabilities		-	(15,310)
Losses (Gains) from sale of property, equipment and intangible assets		32,227	(908)
Deferred revenues recognized		(55,853)	(35,465)
Revenues, interest on deposits and bonds, net		(5,937,579)	(4,754,923)
		28,593,224	13,279,230
Working capital changes:			
Deposits at Banks maturing after three months		27,852,822	(32,171,283)
Subscription fees receivable		(3,794,399)	(409,163)
Other assets		(79,650)	69,283
Other liabilities		(1,707)	(550,360)
Net cash flows from (used in) operating activities before employees' end of service paid		52,570,290	(19,782,293)
Employees' end of service paid		(100,859)	(16,287)
Net cash flows from (used in) operating activities		52,469,431	(19,798,580)
Investment activities			
Purchase of property, equipment and intangible assets		(5,822)	(18,766)
Sale of property, equipment and intangible assets		12,505	130
Matured financial assets at amortized cost		39,130,469	56,677,995
Purchase of financial asset at amortized cost		(98,673,336)	(46,388,330)
Revenues, interest on deposits and bonds, received		6,832,446	6,342,431
Commission paid for managing investments		(229,981)	(191,703)
Net cash flows (used in) from investment activities		(52,933,719)	16,421,757
Financing activities			
Lease liabilities paid		-	(61,625)
Net cash flows used in financing activities		-	(61,625)
Decrease in cash and cash equivalents		(464,288)	(3,438,448)
Cash and cash equivalents, beginning of the year		1,102,790	4,541,238
Cash and cash equivalents, end of the year	19	638,502	1,102,790

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

1. PDIC and its operations

Palestine Deposit Insurance Corporation (PDIC) was established by Decree Law No. (7) of 2013 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 capital was paid by the German Development Bank on behalf of the Ministry of Finance. the unpaid Palestinian government contribution as of December 31, 2022 was $7,615,186. Subsequent to the date of the financial statements, the Ministry of Finance stated its inability to fulfill its contribution to PDIC's capital and requested the corporation to search for the possibility of securing funding sources from donors to cover the unpaid amount.
- 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 (19) and (20) as of December 31, 2022 and 2021, respectively.

The financial statements of PDIC as of December 31, 2022 have been approved by PDIC's Board of Directors in meeting No. (3/2023) on June 22, 2023.

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, 2022 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 of PDIC are consistent with those used in the preparation of the annual financial statements for the prior year, except for the PDIC's application of some amendments effective as of January 1, 2022:

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS (16)

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

These amendments had no material impact on the financial statements of PDIC.

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

In May 2020, the IASB issued amendments to IAS (37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. Loss-making contracts are defined as contracts whose unavoidable cost of meeting their obligations exceeds the economic benefits expected to be obtained under such contracts.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments were applied to contracts whose conditions were not met at the beginning of the fiscal year in accordance with the requirements of the amendments.

These amendments had no material impact on the financial statements of PDIC.

IFRS (9) Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS (9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

These amendments had no material impact on the financial statements of PDIC.

2.3 International Financial Reporting Standards, new interpretations and amendments issued but not yet effective

The international financial standards and amendments issued and 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:

Amendments to IAS (1): Classification of Liabilities as Current or Non-current

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

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

These amendments will be applied retrospectively on January 1,2024.

These amendments are not expected to have a material impact on PDIC.

Definition of Accounting Estimates - Amendments to IAS (8)

In February 2021, the IASB issued amendments to IAS (8), in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

These amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

These amendments are not expected to have a material impact on PDIC.

Disclosure of Accounting Policies - Amendments to IAS (1) and IFRS Practice Statement (2)

In February 2021, the IASB issued amendments to IAS (1) and IFRS Practice Statement (2) Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS (1) are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement (2) provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

PDIC is currently assessing the impact of these amendments to determine the impact on the disclosures of PDIC's accounting policies.

Deferred tax relating to assets and liabilities arising from a single transaction - Amendments to IAS (12)

In May 2021, the International Accounting Standards Board issued amendments to IAS (12), which narrow the scope of the initial recognition exception under IAS (12), so that it no longer applies to transactions that result in equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

These amendments are not expected to have a material impact on PDIC.

2.4 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 according to the accrual basis.

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.

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 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 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 on 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 on hand and balances at banks

	2022	2021
	U.S. $	U.S. $
Cash on hand	725	610
Current and on demand accounts	637,605	1,066,104
Commercial deposits maturing after three months	3,719,461	21,908,955
Islamic deposits maturing after three months	599,000	10,262,328
	4,956,791	33,237,997
Less: provision for expected credit losses	(64,333)	(486,411)
	4,892,458	32,751,586

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As of January 1, 2022	33,237,387	-	-	33,237,387
Net change during the year	(28,281,321)	-	-	(28,281,321)
As of December 31, 2022	4,956,066	-	-	4,956,066

	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

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As of January 1, 2022	486,411	-	-	486,411
Net re-measurement of expected credit losses during the year	(422,078)	-	-	(422,078)
As of December 31,2022	64,333	-	-	64,333

	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 re-measurement of expected credit losses during the year	433,641	-	-	433,641
As of December 31, 2021	486,411	-	-	486,411

4. Balances with Palestine Monetary Authority (PMA)

	2022	2021
	U.S. $	U.S. $
Current and on demand accounts	172	36,076
	172	36,076

5. Subscription fees receivable

This item represents the unreceived subscription fees receivable from members for the fourth quarter of 2022.

Following are the details of the subscription fees receivable as at December 31,2022 and 2021:

	2022	2021
	U.S. $	U.S. $
Subscription fees receivable from Commercial banks	6,149,612	3,036,895
Subscription fees receivable from Islamic banks	1,390,294	708,612
	7,539,906	3,745,507

6. Financial assets at amortized cost

	2022	2021
	U.S. $	U.S. $
Quoted bonds and Islamic sukuk in foreign markets*	241,935,147	177,874,574
Treasury bonds - Central Bank of Jordan	-	5,500,745
Unquoted Bonds**	7,500,000	7,500,000
	249,435,147	190,875,319
Less: provision for expected credit losses	(334,064)	(322,847)
	249,101,083	190,552,472

* This item represents PDIC's investment in bonds and sukuk issued by a foreign Commercial and Islamic Institutions that mature within one to ten years, with an interest and return rate range from 0.91% to 7.17 %.

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

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As of January 1, 2022	190,875,319	-	-	190,875,319
Additions during the year	97,346,928	1,326,408	-	98,673,336
Matured during the year	(39,159,964)	-	-	(39,159,964)
Transferred to stage (2)	(12,790,672)	12,790,672	-	-
Net change in premiums and discounts during the year	(950,653)	(2,891)	-	(953,544)
As of December 31, 2022	235,320,958	14,114,189	-	249,435,147

	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

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

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
As of January 1, 2022	322,847	-	-	322,847
Transferred to stage (2)	(2,125)	2,125	-	-
Net re-measurement of expected credit losses during the year	(21,188)	32,405	-	11,217
As of December 31, 2022	299,534	34,530	-	334,064

	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 re-measurement of expected credit losses during the year	39,046	-	-	39,046
As of December 31, 2021	322,847	-	-	322,847

7. Property and equipment

December 31, 2022	Leasehold improvements	Equipment	Furniture and fixture	Motor vehicles	office supplies and computer systems	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:						
Balance, beginning of the year	141,273	56,204	74,283	38,249	264,948	574,957
Additions	-	-	-	-	5,822	5,822
Disposals	(141,273)	(56,204)	(61,944)	-	(22,525)	(281,946)
Balance, end of the year	-	-	12,339	38,249	248,245	298,833
Accumulated depreciation:						
Balance, beginning of the year	130,550	39,383	66,694	36,175	98,914	371,716
Depreciation for the year	-	-	303	2,074	66,951	69,328
Disposals	(130,550)	(39,383)	(55,416)	-	(14,838)	(240,187)
Balance, end of the year	-	-	11,581	38,249	151,027	200,857
Book value at December 31, 2022	-	-	758	-	97,218	97,976
Book value at December 31, 2021	10,723	16,821	7,589	2,074	166,034	203,241

8. Investment properties

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	1,113,272	-
Transferred from property and equipment	-	1,113,272
Balance, end of the year	1,113,272	1,113,272

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 the land that was intended for building the headquarter of PDIC to investment properties. The fair value of the land was U.S. $1,135,325 as at December 31, 2022.

9. Intangible assets

This item represents programs and software systems, following are the details of the movement during 2022 and 2021:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	29,569	29,254
Additions	-	12,553
Amortization	(11,148)	(12,238)
Disposals	(2,973)	-
Balance, end of the year	15,448	29,569

10. Other Assets

	2022	2021
	U.S. $	U.S. $
Accrued interest on bonds	1,694,672	1,386,502
Interest paid to bondholders	121,883	24,657
Accrued interest on deposits	47,927	37,944
Prepaid expenses	9,536	8,722
Others	1,585	19,975
	1,875,603	1,477,800

11. Employees' end of service provision

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	303,185	239,396
Additions during the year	33,806	80,076
Paid during the year	(100,859)	(16,287)
Balance, end of the year	236,132	303,185

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

12. Other liabilities

	2022	2021
	U.S. $	U.S. $
Deferred revenues*	80,728	136,581
Provision for employees' vacations	35,253	55,045
Due to suppliers and accrued expenses	27,543	9,458
	143,524	201,084

* This item represents the deferred revenues from German Development Bank. Following is the movement on the deferred revenues during the year:

	2022	2021
	U.S. $	U.S. $
Balance, beginning of the year	136,581	-
Additions (Note 23)	-	172,046
Transferred to deferred revenues recognized	(55,853)	(35,465)
Balance, end of the year	80,728	136,581

13. 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 commercial reserves on a pro-rata basis, based on the subscription fees for Islamic banks and commercial banks at the end of the financial year.

14. 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. (3/2019) was issued by PDIC regarding reducing the minimum subscription fees to (0.2%-0.8%), and as at January 1, 2020 the subscription fees rate became 0.2% of the average total deposit instead of 0.3% of the average total deposit. On October 27, 2020, Circular No. (2/2020) was issued by PDIC regarding reducing the minimum subscription fees to (0.1%-0.8%), and as at October 1, 2020 the subscription fees 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 fees 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 the details of subscription fees revenue as of December 31, 2022 and 2021:

	2022	2021
	U.S. $	U.S. $
Commercial banks subscription fees	24,222,881	11,629,126
Islamic banks subscription fees	5,578,480	2,692,317
	29,801,361	14,321,443

15. Interest on deposits and revenues on bonds, net

	2022 U.S. $	2021 U.S. $
Interest from commercial financial assets at amortized cost	5,920,688	5,250,777
Return from Islamic financial assets at amortized cost	716,417	723,799
Interest from deposits with commercial banks	333,703	187,396
Revenues from deposits with Islamic banks	179,791	112,753
Amortization of bonds premium or discount, net	(953,544)	(1,328,099)
Brokerage firms' commissions	(229,981)	(191,703)
Losses from recall and sale of bonds before maturity	(29,495)	-
	5,937,579	4,754,923

16. Employees' expenses

	2022 U.S. $	2021 U.S. $
Salaries and wages	527,958	659,674
PDIC's contribution to provident fund	53,234	62,237
Employee's transportation	37,042	47,559
Provision of employees' end of service	33,806	80,076
Training, conferences and meetings	32,691	3,372
Health insurance expenses	18,900	18,345
Telecommunication	10,322	11,012
Fuel	3,489	2,423
Accrued vacations	1,742	9,562
Others	1,929	2,146
	721,113	896,406

17. General and administrative expenses

	2022 U.S. $	2021 U.S. $
Consultations and legal fees	59,592	24,712
Fees and subscriptions	54,645	59,461
Board of Directors remunerations	37,200	38,500
Loss on disposal of property, equipment and intangible asset	32,227	-
Advertising and marketing	19,729	7,676
Utilities	15,033	12,063
Telephone, internet and mail	9,754	18,830
Cleaning and security	9,115	10,387
Office supplies	8,864	3,434
Translation expenses	8,003	798
Commissions expenses and bank interests	7,123	1,852
Maintenance	3,488	2,887
Hospitality	2,496	1,106
Annual reports and work plans	1,945	500
Vehicle	1,787	1,481
Fuel expenses	1,734	2,362
Stationery and printings	1,460	506
Rents	458	2,062
General Insurance	157	307
Disposal of projects in progress	-	30,942
Others	6,413	2,747
	281,223	222,613

18. Recovery (Provision) for expected credit losses

	2022			
	Stage (1)	Stage (2)	Stage (3)	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Balances at banks (Note 3)	422,078	-	-	422,078
Financial assets at amortized cost (Note 6)	21,188	(32,405)	-	(11,217)
	443,266	(32,405)	-	410,861

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

19. 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:

	2022	2021
	U.S. $	U.S. $
Cash on hand and balances at banks	4,956,791	33,237,997
Balances with Palestine Monetary Authority (PMA)	172	36,076
Less: Deposits at Banks maturing after three months	(4,318,461)	(32,171,283)
	638,502	1,102,790

20. 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:

		2022	2021
	Nature of Relationship	U.S. $	U.S. $
Balances with Palestine Monetary Authority (PMA)	Board of directors	172	36,076

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

		2022	2021
	Nature of Relationship	U.S. $	U.S. $
Hosting fees at PMA's building	Board of directors	27,912	-
Board of directors' remunerations and expenses	Board of directors	37,200	38,500
Key management salaries and benefits:			
Short-term benefits		133,279	146,282
End of service provision		6,435	15,595

21. Fair value measurement

PDIC uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

Level 1: Using the trading prices (unadjusted) for completely similar financial instruments in active financial markets for the financial instruments.

Level 2: using data other than trading prices, but it can be observed directly or indirectly.

Level 3: using data that is not based on observable market data.

PDIC did not make any transfers between the above levels during 2022 and 2021.

The following table provides the fair value measurement hierarchy of PDIC's assets as at December 31, 2022:

			Fair value Measurement using		
	Date of Measurement	Total U.S. $	Quoted Prices in active markets (Level 1) U.S. $	Significant observable inputs (Level2) U.S. $	Significant-non-observable inputs (Level3) U.S. $
Financial assets for which fair values are disclosed:					
Financial assets at amortized cost (Note 6):					
Quoted bonds and Islamic Sukuk in foreign financial markets	December 31, 2022	228,082,475	228,082,475	-	-
Unquoted bonds in financial markets	December 31, 2022	7,328,274	-	-	7,328,274
Investment properties (Note 8)	December 31, 2022	1,135,325	-	-	1,135,325

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

			Fair value Measurement using		
	Date of Measurement	Total U.S. $	Quoted Prices in active markets (Level 1) U.S. $	Significant observable inputs (Level2) U.S. $	Significant-non-observable inputs (Level3) U.S. $
Financial assets for which fair values are disclosed:					
Financial assets at amortized cost (Note 6):					
Quoted bonds and Islamic Sukuk in foreign financial markets	December 31, 2021	179,806,110	179,806,110	-	-
Unquoted bonds in financial markets	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

- Sensitivity of unobservable inputs (Level 3):

Certified external valuators are assigned to value the material assets such as investment properties. After discussion with these external evaluators, PDIC selects the methods and inputs that will be used for the evaluation in each case, which are mostly sales prices of similar land during the year which are calculated at the fair value of the square meter of the land multiplied by the number of square meters.

22. Fair values of financial instruments

The table below represents a comparison between the carrying amounts and fair values of financial instruments carried in the financial statements:

	Carrying value		Fair value	
	2022	2021	2022	2021
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Cash on hand and balances at banks	4,892,458	32,751,586	4,892,458	32,751,586
Balances with Palestine Monetary Authority (PMA)	172	36,076	172	36,076
Subscription fees receivables	7,539,906	3,745,507	7,539,906	3,745,507
Financial assets at amortized cost	249,101,083	190,552,472	235,410,749	192,632,899
Other financial assets	1,864,482	1,449,103	1,864,482	1,449,103
	263,398,101	228,534,744	249,707,767	230,615,171
Financial liabilities				
Other financial liabilities	27,543	9,458	27,543	9,458
	27,543	9,458	27,543	9,458

- 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 on hand and balances at banks, balances with Palestine Monetary Authority, subscription fees receivables, other financial assets 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.

23. 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) through a consulting company with this regard.

The amount transferred to the consulting company amounted to Euro 824,032 and Euro 794,082 (equivalent to U.S. $ 876,935 and U.S. $ 845,062) from the grant as of December 31,2022 and December 31,2021, respectively.

The cost of office supplies, computer systems, software and networks that were purchased during 2021 through the consulting company amounted to U.S. $172,046.

24. 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:

	2022	2021
	U.S. $	U.S. $
Balances at banks	4,891,733	32,750,976
Subscription fees receivables	7,539,906	3,745,507
Financial assets at amortized cost	249,101,083	190,552,472
Other financial assets	1,864,482	1,449,103
Balances with Palestine Monetary Authority (PMA)	172	36,076
	263,397,376	228,534,134

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)
2022	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	%	%	%
Balances at banks	4,956,066	-	-	64,333	-	-	1.30	-	-
Subscription fees receivables	7,539,906	-	-	-	-	-	-	-	-
Financial assets at amortized cost	235,320,958	14,114,189	-	299,534	34,530	-	0.13	0.24	-
Other financial assets	1,864,482	-	-	-	-	-	-	-	-
Balances with Palestine Monetary Authority (PMA)	172	-	-	-	-	-	-	-	-
Total	249,681,584	14,114,189	-	363,867	34,530	-	1.43	0.24	-

	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. $	%	%	%
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	-	-

Concentration of credit risk exposures before the deduction of the expected credit losses according to the geographical area is as follows:

2022	Palestine U.S. $	Jordan U.S. $	Arab Countries U.S. $	Europe U.S. $	Others U.S. $	Total U.S. $
Balances at banks	4,767,656	-	-	188,410	-	4,956,066
Balances with Palestine Monetary Authority (PMA)	172	-	-	-	-	172
Subscription fees receivables	7,539,906	-	-	-	-	7,539,906
Financial assets at amortized cost	7,500,000	4,565,270	89,479,718	25,396,554	122,493,605	249,435,147
Other financial assets	100,566	107,906	651,445	139,685	864,880	1,864,482
Total	19,908,300	4,673,176	90,131,163	25,724,649	123,358,485	263,795,773

2021	Palestine U.S. $	Jordan U.S. $	Arab Countries U.S. $	Europe U.S. $	Others U.S. $	Total 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

Concentration of credit risk exposures before the deduction of the expected credit losses according to IFRS (9) Stages as at December 31, 2022 and 2021 is as follows:

2022	Stage (1)	Stage (2)	Stage (3)	2022
	U.S. $	U.S. $	U.S. $	U.S. $
Palestine	19,908,300	-	-	19,908,300
Jordan	4,673,176	-	-	4,673,176
Arab countries	80,751,860	9,379,303	-	90,131,163
Europe	20,989,763	4,734,886	-	25,724,649
Others	123,358,485	-	-	123,358,485
Total	249,681,584	14,114,189	-	263,795,773

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

Classification of debt securities based on risk rating:

The table below analyzes the credit exposure before the deduction of the expected credit loss of the debt securities using the credit rating as per the global credit rating agencies:

	2022	2021
	Financial assets at amortized cost	Financial assets at amortized cost
Credit rating	U.S. $	U.S. $
Private sector:		
From A- to AAA	205,096,902	146,736,985
From B- to BBB+	36,838,245	31,137,589
Unrated	7,500,000	7,500,000
Central Bank of Jordan	-	5,500,745
Total	249,435,147	190,875,319

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, 2022

	December 31, 2022			
	Less than a year	More than a year	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Assets				
Cash on hand and balances at banks	4,892,458	-	-	4,892,458
Balances with Palestine Monetary Authority (PMA)	172	-	-	172
Subscription fees receivable	7,539,906	-	-	7,539,906
Financial assets at amortized cost	11,043,447	238,057,636	-	249,101,083
Property and equipment	-	-	97,976	97,976
Investment properties	-	-	1,113,272	1,113,272
Intangible assets	-	-	15,448	15,448
Other financial assets	1,875,603	-	-	1,875,603
Total Assets	25,351,586	238,057,636	1,226,696	264,635,918
Liabilities				
Employees' end of service provision	-	236,132	-	236,132
Other financial liabilities	108,271	35,253	-	143,524
Total liabilities	108,271	271,385	-	379,656
Equity				
Paid-in share capital	-	-	14,184,814	14,184,814
Islamic banks' reserve	-	-	37,455,913	37,455,913
Commercial banks' reserve	-	-	212,615,535	212,615,535
Total equity	-	-	264,256,262	264,256,262
Total liabilities and equity	108,271	271,385	264,256,262	264,635,918
Maturity gap	25,243,315	237,786,251	(263,029,566)	-
Cumulative gap	25,243,315	263,029,566	-	-

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 on hand and balances 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
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
Other financial liabilities	146,039	55,045	-	201,084
Total liabilities	146,039	358,230	-	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	146,039	358,230	229,405,254	229,909,523
Maturity gap	69,406,172	158,653,000	(228,059,172)	-
Cumulative gap	69,406,172	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. $
2022		
Israeli Shekel	10	321,535

	Increase in currency rate	Effect on statement of income and other comprehensive income
2021	(Basis points)	U.S. $
Israeli Shekel	10	137,735

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, 2022. 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:

	2022		2021	
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	50,000	10	40,008

25. 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. $ 264,256,262 and U.S. $ 229,405,254 as at December 31, 2022 and 2021, respectively.

26. 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.


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