QUDS BANK
PUBLIC SHAREHOLDING COMPANY, Ltd.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

AND INDEPENDENT AUDITOR'S REPORT

(Translated from the Original Arabic Version)

- Table of Contents -

pwc

Independent Auditor's Report

To the Shareholders of Quds Bank - Public Shareholding Company, Ltd.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Quds Bank - Public Shareholding Company, Ltd. (hereinafter the "Bank") as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at December 31, 2017;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section of our report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key Audit Matters	Provision for impairment of direct credit facilities

Independent auditor's report (continued)
To the Shareholders of Quds Bank
(Public Shareholding Company, Ltd.)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management's override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How we responded to the key audit matters
Provision for impairment of direct credit facilities	
As described in the accounting policies (3.3) and (3.8) and note (3.22) "Use of estimates", the management determines the provision of impairment of direct credit facilities through adopting the accounting policies No. (3.3) and (3.8), and in accordance with the relevant instructions of Palestine Monetary Authority. Management reviews the contracts individually or as a group to determine whether there are indicators of impaired facilities such as the debtor's inability to pay for a certain period. If any such indications exists, management estimates the impairment based on the estimated recoverable amount from collaterals in favour of the Bank, and in accordance with the International Financial Reporting Standards and the relevant instructions of Palestine Monetary Authority. Given the significance of these estimates and assumptions, they are considered one of the key risks that might lead to a material misstatement in the financial statements, which may arise from the improper use of available information and estimates for the determination of the provision amount. As described in note (7) to the financial statements, management estimated the provision for impairment of direct credit facilities amounted to USD 4,645,843. The net direct credit facilities amounted to USD 658,517,963, representing 61% of the Bank's total assets as at December 31, 2017.	The following procedures were followed to assess whether management's estimation of provision for impairment of direct credit facilities is reasonable: • Evaluation of management's approach for the determination of debtor's classification and the evaluation method of the present recoverable amount of collaterals in favour of the Bank upon selling, expected cash flows and the management's approach for the determination of provision value as at December 31, 2017. • Examination of a sample of the customers classified by management as defaulters to assess whether their classification is reasonable. • Evaluation of management's approach for the determination of provision value as at December 31, 2017. • Evaluation of the key assumptions based on our understanding of the Bank and its business sector. • Examination of a sample of management's estimates of the recoverable amount upon disposal of assets to evaluate the reasonableness of its valuation. • Examination of some of the relevant internal control procedures and systems adopted by management. • Recalculation of impairment provision for the direct credit facilities for a sample of customers in accordance with the relevant instructions of the Palestine Monetary Authority and International Financial Reporting Standards. • Evaluation of the adequacy of disclosure of the provision for impairment of direct credit facilities.

Independent auditor's report (continued)
To the Shareholders of Quds Bank
(Public Shareholding Company, Ltd.)

Other information

Management is responsible for the other information, the other information comprises the Banks anuual report for 2017, but does not include the financial statements and our auditor's report. We were not provided with the other information up to date of our report, as it is expected to be available to us after that date.

Our opinion on the financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we review the other information that have not been provided yet, and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Management's responsibility and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Finacnial Reporting Standards and applicable laws in the State of Palestine and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease its operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Independent auditor's report (continued)
To the Shareholders of Quds Bank
(Public Shareholding Company, Ltd.)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimate and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For PricewaterhouseCoopers Palestine

Hazem Sababa
License number 115/2003

Ramallah, Palestine
March 18, 2018

Statement of financial position
(All amounts are in US Dollars unless otherwise stated)

	Note	2017	2016
ASSETS			
Cash and balances with Palestine Monetary Authority (PMA)	(4)	257,491,000	196,087,817
Balances at banks and financial institutions	(5)	71,970,257	57,652,702
Financial assets at fair value through statement of income	(6)	103,260	96,820
Direct credit facilities	(7)	658,517,963	616,140,359
Financial assets at fair value through statement of comprehensive income	(8)	3,058,329	12,362,167
Financial assets at amortised cost	(9)	9,409,145	11,182,455
Property and equipment	(10)	30,278,332	26,852,823
Projects under construction		3,067,092	3,614,468
Intangible assets	(11)	22,481	24,244
Deferred tax assets	(12)	1,066,727	1,066,727
Other assets	(13)	40,644,948	34,991,785
		1,075,629,534	**960,072,367**
LIABILITIES AND EQUITY			
Liabilities			
Palestine Monetary Authority deposits		67,336,229	25,000,000
Banks and financial institutions deposits	(14)	15,559,926	40,451,070
Customers' deposits	(15)	785,970,046	736,080,524
Cash margins	(16)	69,378,880	41,583,089
Borrowed funds	(17)	381,688	590,181
Other provisions	(18)	5,163,104	4,537,851
Tax provision	(19)	2,051,998	161,672
Other liabilities	(20)	27,056,989	22,600,691
Total liabilities		**972,898,860**	**871,005,078**
Equity			
Paid-in capital	(21)	68,376,000	61,050,000
Statutory reserve	(23)	6,448,168	5,330,122
General banking risks reserve	(23)	10,264,820	9,480,057
Reserve of cyclical fluctuations	(23)	4,757,269	6,407,381
Fair value reserve	(8)	(2,782,374)	1,734,184
Retained earnings		15,666,791	5,065,545
Total equity		**102,730,674**	**89,067,289**
Total liabilities and equity		**1,075,629,534**	**960,072,367**

- The accompanying notes from (1) to (41) form an integral part of these financial statements and shall be read together.
- These financial statements were approved for issue by the Board of Directors on January 23, 2018 and were signed on their behalf.

Mr. Akram Jerab	Mr. Salah Hadmi	Mr. Mohammad Salman
Chairman	**General Manager**	**Assistant General Manager**

Statement of income
(All amounts are in US Dollars unless otherwise stated)

	Note	2017	2016
Interest income	(24)	46,251,723	39,119,898
Interest expense	(25)	(11,569,449)	(8,684,651)
Net interest income		**34,682,274**	**30,435,247**
Net commissions income	(26)	9,996,979	7,069,467
Net interest and commissions income		**44,679,253**	**37,504,714**
Gain from foreign currency exchange		5,442,845	3,697,120
Net gains from financial assets	(27)	526,091	423,235
Recovery of provision for impairment of credit facilities	(7)	2,010,941	1,282,388
Other revenues	(28)	1,019,268	915,644
Gross income		**53,678,398**	**43,823,101**
Expenses			
Personnel costs	(29)	17,817,430	14,971,213
Provision for impairment in direct credit facilities	(7)	3,853,804	2,369,572
Other operating expenses	(30)	12,702,999	10,577,132
Depreciation and amortisation	(11,10)	2,597,551	2,479,257
Provision for end of service indemnity	(18)	1,580,570	968,645
Provision for lawsuits	(18)	38,530	-
Palestine Monetary Authority fines	(37)	7,052	10,000
Total expenses		**38,597,936**	**31,375,819**
Profit for the year before income tax		**15,080,462**	**12,447,282**
Tax expense	(19)	(3,900,000)	(1,976,578)
Profit for the year		**11,180,462**	**10,470,704**
Basic and diluted earnings per share for the year	(38)	**0.164**	**0.153**

- The accompanying notes from (1) to (41) form an integral part of these financial statements and shall be read together.

Statement of comprehensive income
(All amounts are in US Dollars unless otherwise stated)

	2017	2016
Profit for the year	11,180,462	10,470,704
Other comprehensive income		
Changes in fair value of financial assets at fair value through statement of comprehensive income	2,482,923	1,644,134
Net other comprehensive income for the year	**2,482,923**	**1,644,134**
Total comprehensive income for the year	**13,663,385**	**12,114,838**

- The accompanying notes from (1) to (41) form an integral part of these financial statements and shall be read together.

Statement of changes in equity
(All amounts are in US Dollars unless otherwise stated)

	Paid-in capital	Reserves				Retained earnings	Total
		Statutory	General banking risks	Cyclical fluctuations	Fair value		
December 31, 2017							
Balance as at January 1, 2017	**61,050,000**	**5,330,122**	**9,480,057**	**6,407,381**	**1,734,184**	**5,065,545**	**89,067,289**
Changes during the year:							
Profit for the year	-	-	-	-	-	11,180,462	**11,180,462**
Other comprehensive income							
Changes in fair value for financial assets through statement of comprehensive income	-	-	-	-	2,482,923	-	**2,482,923**
Net comprehensive income for the year	**-**	**-**	**-**	**-**	**2,482,923**	**11,180,462**	**13,663,385**
Profit from sale of financial assets recognised directly in retained earnings	-	-	-	-	(6,999,481)	6,999,481	**-**
Stock dividends (note 22)	7,326,000	-	-	(3,327,181)	-	(3,998,819)	**-**
Transferred to reserves	-	1,118,046	784,763	1,677,069	-	(3,579,878)	**-**
Balance as at December 31, 2017	**68,376,000**	**6,448,168**	**10,264,820**	**4,757,269**	**(2,782,374)**	**15,666,791**	**102,730,674**
December 31, 2016							
Balance as at January 1, 2016	55,000,000	4,283,052	6,598,177	4,836,775	153,909	6,080,538	**76,952,451**
Changes during the year:							
Profit for the year	-	-	-	-	-	10,470,704	**10,470,704**
Other comprehensive income							
Changes in fair value for financial assets through statement of comprehensive income	-	-	-	-	1,644,134	-	**1,644,134**
Net comprehensive income for the year	**-**	**-**	**-**	**-**	**1,644,134**	**10,470,704**	**12,114,838**
Profit from sale of financial assets recognised directly in retained earnings	-	-	-	-	(63,859)	63,859	**-**
Stock dividends (note 22)	6,050,000	-	-	-	-	(6,050,000)	**-**
Transferred to reserves	-	1,047,070	2,881,880	1,570,606	-	(5,499,556)	**-**
Balance as of December 31, 2016	**61,050,000**	**5,330,122**	**9,480,057**	**6,407,381**	**1,734,184**	**5,065,545**	**89,067,289**

- The accompanying notes from (1) to (41) form an integral part of these financial statements and shall be read together.

Statement of cash flows
(All amounts are in US Dollars unless otherwise stated)

	Note	2017	2016
Operating activities			
Profit for the year before income tax		15,080,462	12,447,282
Adjustments to reconcile net profit to net cash flows from operating activities			
Depreciation and amortisation	(11,10)	2,597,551	2,479,257
Provision for impairment of direct credit facilities	(7)	3,853,804	2,369,572
Provision for end of service indemnity	(18)	1,580,570	968,645
Provision for lawsuits	(18)	38,530	-
Unrealised gains from revaluation of financial assets at fair value through statement of income	(27)	(6,440)	(170)
Loss from disposal of property and equipment		36,320	59,640
		23,180,797	**18,324,226**
Change in assets and liabilities			
Requirements of statutory cash reserve	(4)	(5,537,895)	(11,179,877)
Direct credit facilities	(7)	(46,231,408)	(186,339,928)
Other assets	(13)	(5,653,163)	(11,832,798)
Banks and financial institutions deposits (more than 3 months)	(14)	-	-
Customers' deposits	(15)	49,889,522	119,403,613
Cash margins	(16)	27,795,791	11,250,528
Other liabilities	(20)	4,456,672	12,436,623
Net cash flows generated from (used in) operating activities before paid taxes and provisions		**47,900,316**	**(47,937,613)**
End of service indemnity paid	(18)	(952,550)	(640,018)
Provision for lawsuits paid	(18)	(41,297)	-
Taxes paid	(19)	(2,009,674)	(2,455,729)
Net cash flows generated from (used in) operating activities		**44,896,795**	**(51,033,360)**
Investing activities			
Result of net change in financial assets through statement of comprehensive income	(8)	11,786,761	(1,335,397)
Sale of financial assets at amortised cost	(9)	1,773,310	9,917,211
Purchase of property and equipment and change in projects under construction	(10)	(5,735,275)	(7,554,140)
Proceeds from disposal of property and equipment		225,034	210,844
Net cash flows generated from investing activities		**8,049,830**	**1,238,518**
Financing activities			
Borrowed funds	(17)	(208,493)	(2,647,290)
Cash dividends		(374)	(14,853)
Net cash flows used in financing activities		**(208,867)**	**(2,662,143)**
Net increase (decrease) in cash and cash equivalents		**52,737,758**	**(52,456,985)**
Cash and cash equivalents at the beginning of the year	(35)	121,139,499	173,596,484
Cash and cash equivalents at the end of the year	(35)	**173,877,257**	**121,139,499**

- The accompanying notes from (1) to (41) form an integral part of these financial statements and shall be read together.

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (1) General

Quds Bank (hereinafter "the Bank") was established on April 2, 1995 in Gaza as a public shareholding company, Ltd under the registration number (563200880) according to the Companies Law of the year 1929, as amended, with a capital of USD 20,000,000 divided into 20,000,000 shares at a par value of USD 1 per share. The Bank increased its capital on August 20, 2005 to become USD 25,000,000 with the same par value. The Bank increased its capital again in 2006 to reach an issued and fully paid-in capital of USD 50,000,000 with a par value of USD 1 per share. On June 5, 2011, the General Assembly decided in its extraordinary meeting to raise the Bank's capital to USD 100,000,000 and assigned the Bank's Board of Directors to execute this decision during the subsequent years. On April 27, 2015 the Bank's capital was increased by USD 5,000,000 so that the paid-in capital amounted to USD 55,000,000 with a par value of USD 1 per share. The Bank's capital was also increased by an amount of USD 6,050,000 on May 15, 2016 and the paid-in capital amounted to USD 61,050,000 with the same par value per share. On May 8, 2017 the Bank's capital was increased by USD 7,326,000 and the paid-in capital amounted to USD 68,376,000 at same par value.

The Bank commenced its activities in Palestine on January 18, 1997.

The Bank's main objectives are represented in providing banking, commercial and investing activities through lending, financing, opening accounts and letters of credit; accepting deposits; and trading in different currencies through its (23) branches in Palestine, in addition to (14) offices as at December 31, 2017.

The number of the Bank's employees (Headquarter and branches) as at December 31, 2017 was (728) employees against (675) employees as at December 31, 2016.

The Bank is subject to the Banks Law and the instructions of the Palestine Monetary Authority (PMA). The Bank's shares were listed for trading in Palestine Exchange Market in the year 2005.

The accompanying financial statements have been approved by the Board of Directors of the Bank in its meeting held on January 23, 2018 and are subject to the approval of the Palestine Monetary Authority and Shareholders' General Assembly.

Note (2) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and the applicable local laws and instructions of Palestine Monetary Authority (PMA).

The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through statement of income and financial assets at fair value through statement of comprehensive income stated at fair value at the date of the financial statements. In addition, the financial assets and financial liabilities that have been hedged for changes in their fair value are shown at fair value.

The financial statements are presented in United States Dollar (USD), which is the functional and presentation currency of the Bank.

The accompanying financial statements include the financial statements of the branches of the Bank and the financial statements of the headquarter in Ramallah. The financial statements were combined after offsetting the inter-bank accounts between headquarter and branches. The outstanding inter-bank transactions between headquarter and the branches are included under other assets and liabilities in the accompanying statement of financial position.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Any change in those assumptions and judgments could materially impact the financial statements in the period in which the change occurred. The management believes that the used assumptions and judgments are appropriate, and that the financial statements present the Bank's financial position fairly. The areas that involve high degree of judgment or complexity, or the areas involving assumptions and estimates significant to the financial statements are disclosed in Note (3.22).

Note (3) Significant accounting polices

The accounting policies applied in the preparation of the financial statements of the Bank are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2016 except as presented in note (3.1).

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

3.1 Changes in accounting policy and disclosures

(a) New and amended standards and interpretations issued and adopted by the Bank for the first time and are effective for the financial year beginning January 1, 2017 and have no material impact on the financial statements of the Bank:

- Recognition of deferred tax assets for unrealised losses - Amendments to IAS 12 "Income tax".
- Improvement of disclosures - Amendments to IAS 7 'Statement of cash flows'.
- Transfers of investment properties - Amendments to IAS 40 "Investment properties".
- Annual improvements to International Financial Reporting Standards 2012-2014 Cycle.

(b) New standards and interpretations that are not mandatory for the financial year beginning on January 1, 2017 but have not been early adopted by the Bank:

- **IFRS 15, 'Revenue from contracts with customers'**

Nature of change: The IASB has issued new standards for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. Based on the new standard, the revenue is recognised when the control of a good or service is transferred to the customer. The standard permits a full retrospective approach or a modified retrospective approach for the adoption.

Impact: The management believes that the adoption of the standard is not expected to have an impact on the financial statements since the majority of the Bank's revenues are derived from sources not subject to the scope of the standard.

Mandatory date of adoption: Mandatory for the financial years beginning on or after January 1, 2018.

- **IFRS 16, 'Leases'**

Nature of change: IFRS 16 was issued on January 2016. This standard will result in recognising all leases in the statement of financial position as distinction between finance leases and operating leases is removed. The standard requires the recognition of the asset (the right to use the leased item) and the financial liability for corresponding rental payments, except for short-term and low-value leases. For accounting by lessors, there is no significant change.

Impact: The standard will mainly impact the accounting for the operating leases of the Bank. As at the reporting date, most leases relate to short-term and low-value lease payments and accordingly they are subject to the exemption permitted by the standard.

Mandatory date of adoption: Mandatory for the financial years beginning on or after January 1, 2019. In this stage, the Bank does not intend to adopt the standard before the effective date. The management plans to adopt a simplified approach of transition and the prior year comparative figures will not be restated on the first-time adoption.

- **IFRS 9, 'Financial instruments'**

Nature of change: This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The standard introduces also a new impairment model to recognise the provisions for impairment.

<u>Impact of IFRS 9 adoption:</u>

The Bank is required to apply IFRS 9 effective January 1, 2018. Accordingly, the Bank has made an initial impact assessment. As all the transitional works have not been finalised yet, the impact may differ on actual adoption on January 1, 2018 for the following reasons:

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

- the Bank will reflect the effect of all estimates and tests required by the standard when issuing the Bank's first condensed interim financial statements for the period ending June 30, 2018;

- amending the expected loss models and calculations are currently under process as the Bank is finalising the relevant regulations;

- the new accounting policies, assumptions, judgments and estimation techniques used are subject to change until the Bank issues the financial statements as at June 30, 2018; and

- any matters requiring amendment when PMA issues its instructions on the application of IFRS 9.

The key areas of adoption are as follows:

a. Classification and measurement of financial assets:

- The management of the Bank does not expect any material impact from the adoption of the standard. The Bank has early applied the first phase of IFRS 9 effective January 1, 2012 based on the request of PMA.

b. Classification and measurement of financial liabilities:

IFRS 9 has retained the requirements of IAS 39 on classification of financial liabilities. For the fair value measurement, IAS 39 requires recognition of differences resulting from the valuation of financial liabilities classified as financial liabilities at fair value within profit or loss, whereas IFRS 9 requires:

- recognition of differences resulting from the valuation of financial liabilities classified as financial liabilities at fair value through the statement of income and from changes in credit risk in the statement of comprehensive income.

- The remaining amount of differences of fair value valuation is recognised in the statement of income.

c. Hedge accounting:

In applying IFRS 9, the Bank may elect to continue using the hedge accounting policy in accordance with the requirements of IAS 39 rather than those of IFRS 9.

d. Impairment of financial assets:

IFRS 9 replaces the incurred loss model used in IAS 39 to calculate the impairment of financial assets with a forward-looking expected credit loss model, which requires the use of estimates and judgments to assess the economic factors that have the most impact on impairment according to the new model. The model will be applied to all financial assets, i.e. debt instruments, classified at amortised cost or at fair value through statement of comprehensive income or at fair value through statement of income.

Impairment losses will be calculated in accordance with the requirements of IFRS 9 based on the following rules:

- Impairment losses for 12 months: Impairment losses are charged for defaults expected within 12 months following the date of the financial statements.
- Impairment losses for the lifetime of the instrument: Impairment is charged for default expected through the lifetime of the financial instrument from date of maturity to the date of the financial statements.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

The expected credit loss calculation depends on the Probability of Default (PD) which is calculated based on credit risk and future economic factors; Loss Given Default (LGD) which is based on the carrying amount of existing collaterals; and Exposure at Default (ED).

e. Disclosures:
IFRS 9 requires detailed disclosures, in particular with regard to hedge accounting, credit risk and expected credit losses. The Bank is in the process of providing all details required for these disclosures to be presented in the financial statements following the adoption.

f. Adoption:
Based on the preliminary figures, the Bank anticipates an increase in provision for impairment by USD 4,783,606. Under 9, the effect of the adoption is recognised in the opening balances of retained earnings as at January 1, 2018 and provisions instead of reissuing the financial statements for the year ended December 31, 2017 and earlier years. However, as at the date of the financial statements, no clear instructions have been issued by PMA on how the effect from adopting the standard should be processed, taking into account that the balance of the general banking risks reserve as at December 31, 2017 amounted to USD 10,264,820.

There are no other standards that are not effective and would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

3.2 Segment information

A business segment consists of assets and operations providing goods or services that are exposed to risks and returns different from those of other business segments, which are measured according to reports used by the General Manager and decision makers at the Bank.
A geographic segment relates to the provision of goods or services within a specific economic environment exposed to risks and returns different from those of other segments working in other economic environments.

The revenues and expenses directly related to each segment are used to determine the performance of operating segments. Moreover, internal reports are concerned with credit concentration and outcomes' analysis according to business, economic and geographic sectors as disclosed in note (31).

3.3 Direct credit facilities

Financial assets with fixed or determined payments provided mainly by the Bank or have been acquired with no quoted market price in active markets.

Direct credit facilities are recorded at amortised cost after deducting the provision for impairment in direct credit facilities and suspended interest and commissions. A provision for the impairment in direct credit facilities is made when the amounts due to the Bank cannot be collected, and where there is an objective evidence of the existence of an event negatively affecting the future cash flows of the direct credit facilities, and the impairment amount can be estimated. The provision is recorded in the statement of income. Interest and commissions on non-performing credit facilities granted to customers are suspended in accordance with the regulations of Palestine Monetary Authority (PMA).

Credit facilities, for which specific provisions have been made (after taking the required approvals), are written off In the event of the futility of procedures taken for recovery by discounting it from the provision. Any surplus in the provisions is taken to the statement of income, while debt recoveries are recorded as income.

Interest and commissions are suspended for classified debts and those with legal proceedings.

3.4 Financial assets at fair value through income statement

It is the financial assets purchased by the Bank for the purpose of selling in the near future and achieving gains from the fluctuations in market prices in the short term or trading margins.
These financial assets are carried at fair value on acquisition (acquisition costs are recorded in the statement of income upon acquisition) and subsequently re-measured at fair value. Moreover, changes in fair value are recorded in the statement of income. Gains or losses resulting from the sale of these financial assets or part of it are taken to the statement of income.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Realised dividends and interests are recorded in the statement of income.

It is not allowed to reclassify any financial assets to / from this category except for the cases specified in International Financial Reporting Standards.

It is not allowed to classify any financial assets that do not have prices in active markets and active dealings under this item.

3.5 Financial assets at fair value through other comprehensive income

Those financial assets represent the investments in equity instruments held for long term.

These assets are initially stated at fair value plus transaction costs upon acquisition. Subsequently, they are revalued at fair value, and the change in fair value is recognised in the statement of comprehensive income and within equity. In case of selling these assets or part of it, arising gains or losses should be recognised in the statement of comprehensive income and within equity, and the balance of the evaluation reserve for these sold financial assets should be transferred directly to the retained earnings and losses not to the statement of income.

No impairment loss testing is required for those assets. Dividends are recorded in the statement of income.

3.6 Financial assets at amortised cost

The financial assets on which the Bank's management intends according to its business model to hold for the purpose of collecting the contractual cash flows which comprise the payments that are payments of principal and interest on the principal outstanding balance.

Financial assets are recorded at cost upon acquisition plus acquisition expenses. Moreover, the issue premium/ discount is amortised using the effective interest rate method, and recorded to interest account. Provisions arising from impairment lead to the inability to recover the asset or part thereof are deducted. Any impairment is recorded in the statement of income and should be presented subsequently at amortised cost less any impairment losses.

The amount of the impairment in financial assets carried at amortised cost is the difference between the amount recognised in the records and the present value of estimated cash flows discounted at the original effective interest rate.

It is not allowed to reclassify any financial assets from / to this category except for certain cases specified in the International Financial Reporting Standards (and in the case of selling those assets before its maturity date, the results should be recorded in a separate item in the statement of income, disclosures should be made in accordance to the requirements of International Financial Reporting Standards).

3.7 Fair value

The closing market prices (acquisition of assets/ sale of liabilities) on the date of financial statements in active markets represent fair value of financial instruments and derivatives that have a quoted market price. In case the declared market prices do not exist, active trading of some financial instruments and derivatives is not available, or the market is inactive, fair value is estimated by one of several methods including the following:

- Comparison of the fair value with the current market value of a substantially similar financial instrument.
- Analysis of the future cash flows and discount expected cash flows at rate used in a similar financial instrument.

Evaluation of long term financial assets and liabilities that bears no interest is done using the discounted cash flows method and according to the effective interest rate. Any discount/ premium is amortised and recognised in the statement of income, under received/paid interest income.

The evaluation methods aim to provide a fair value reflecting the expectations of the market, and take into consideration market factors, risks or expected benefits, at the time of evaluation of the financial instruments. In case the fair value of financial instruments cannot be measured reliably, it is stated at cost less any impairment.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

3.8 Impairment of financial assets

The Bank reviews the values of financial assets recorded in the records at the date of the statement of financial position in order to determine if there are any objective indications of impairment in their value individually or in group. In case such indications exist, the recoverable value is estimated in order to determine the impairment loss.

Impairment is determined as follows:
Impairment of financial assets at amortised cost: The difference between the value recognised in the records and the present value of the expected cash flows discounted at the original effective interest rate.

The impairment is recorded in the consolidated statement of income, and any surplus in subsequent period resulting from previous impairment for debt instruments is recognised in the statement of income and in the statement of comprehensive income for equity instruments.

3.9 Property and equipment

Property and equipment are stated at cost net of accumulated depreciation (except for lands) and accumulated impairment losses, if any. Cost includes expenditures that are attributable to the acquisition process if the recognition criteria are met. All other expenditures are recognised in the income statement as incurred. These assets are depreciated when it is ready to use according to the straight-line method over their estimated useful lives using the following annual rates:

	%
Buildings	2%
Furniture and office equipment	10%
Computers and information systems	20%
Motor vehicles	10%
Leasehold improvements	10%

When the carrying values of these assets exceed their recoverable values, assets are written down to the recoverable value, and impairment losses are recorded in the statement of income.

The useful lives of these assets are reviewed at the end of each year. In case the expected useful life is different from what was estimated before, the change in estimate is recorded in the following years, being a change in estimate.

These assets are derecognised when disposed of or when there is no expected future benefits from their use or disposal.

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

3.10 Intangible assets

Intangible assets are to be classified on the basis of either definite or indefinite useful life. Intangible assets with definite useful economic lives are amortised over their useful lives and recorded in the statement of income. Intangible assets with indefinite lives are reviewed for impairment as of the financial statements date, and impairment loss is recorded in the statement of income.

No capitalisation of intangible assets resulting from the Bank's operations is made. They are rather recorded in the statement of income for the same period.

Any indications of impairment in the value of intangible assets on the financial statements date are reviewed. Furthermore, the estimated useful life of those assets are reviewed, and any adjustment is made in the subsequent periods.

The Bank’s management estimates the useful life of each item of intangible assets as of the financial statements date. Key money is amortised on a straight line method.

3.11 Assets repossessed to the Bank in settlement of accrued debts

Assets acquired by the Bank are stated in the statement of financial position under “other assets” and are stated at the lower of acquired value and fair value. Assets are revaluated on the date of the financial statements at individual fair value; any impairment in the value is recorded as a loss in the statement of income and any gain shall not be recorded as revenue. Subsequent increase is included in the statement of income to the extent of the impairment in value which was previously recorded.

In accordance with Palestine Monetary Authority instructions, all properties and assets that are acquired as settlement of debts are retained for a period of 2 years from acquisition date, and this period can be extended for another 3 years.

3.12 Other provisions

Provisions are recognised when the Bank has obligations on the date of the financial position as a result of past events, and it is probable that the Bank will settle the obligations, and a reliable estimate can be made for the amount of the obligation. The Bank provides in the statement of income a provision for any obligation or probable commitments in accordance with expected value and probability to be realised on the date of financial position.

3.13 Provision for end of services indemnity

End of service indemnity are provided for in accordance with the labour law in Palestine. Amounts to be deducted annually are recorded in the statement of income and the paid amounts for terminated employees are reduced from the provision for end of service indemnity.

3.14 Income tax

Tax expenses represent the amounts of accrued and deferred taxes.

Accrued tax expenses are calculated on the basis of taxable profit. Taxable profit differs from what is reported in the financial statements, because the reported profit include a non-taxable revenues, or expenses that are non-deductible in the financial year but in subsequent years, or the accumulated losses that are acceptable for tax set off, or items that are non-taxable or are non-deductible for tax purposes.

Taxes are calculated on the basis of the tax rates prescribed according to the prevailing laws, regulations, and instructions in Palestine.

Deferred taxes are taxes expected to be paid or recovered as a result of temporary timing differences between the value of the assets and liabilities in the financial statements and the value of the taxable amount. Deferred tax is calculated on the basis of the liability method in the statement of financial position according to the rates expected to be applied when the tax liability is settled or deferred tax assets are recognised.

Balance of deferred tax assets are reviewed as of the date of the financial statements, and reduced in case it is expected that no benefit will arise therefrom, partially or totally.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

3.15 Offsetting

Financial assets and financial liabilities are offset, and the net amount is reflected in the statement of financial position only when there are legal rights to offset the recognised amounts, and when there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.16 Income and expenses recognition

Interest income is realised by using the effective interest rate method, except for interest and commission on non-performing loans which are not recognised as revenue but recorded in the interest and commission in suspense account.

Expenses are recognised on the accrual basis.

Commission income is recorded as revenue when the related services are provided. Dividends are recorded when realised (decided by the General Assembly of Shareholders).

3.17 Recognition date of financial assets

Purchases and sales of financial assets are recognised on the trade date (which is the date when the Bank commits itself to purchase or sell the financial assets).

3.18 Financial derivatives and hedge accounting

Financial derivatives for hedging:

For hedge accounting purposes, financial derivatives are stated at fair value. Hedges are classified as follows:

Hedging for fair value
Hedge for the change in the fair value of the Bank's assets and liabilities.

When the conditions of effective fair value hedge are met, the resulting gain or loss from revaluating the hedging instrument at fair value, and for the change in fair value of assets and liabilities hedged for is recognised in the statement of income.

When the conditions of effective portfolio hedge are met, the gain or loss resulting from the revaluation of the hedging instrument at fair value as well as the change in the fair value of the assets or liabilities portfolio are recorded in the statement of income for the same period.

Hedging for cash flows
Hedge for the cash flows changes risk in the current and expected assets and liabilities of the Bank.

When the conditions of effective cash flow hedge are met, the gain or loss of the hedging instrument is recognised in the statement of other comprehensive income and within equity. Such gain or loss is transferred to the statement of income in the period in which the hedge transaction impacts the statement of income.

Hedging for net investment in foreign entities
When the conditions of the hedge for net investment in foreign entities are met, fair value is measured for the hedging instrument of the hedged net assets. In case of an effective relationship, the effective portion of the loss or profit related to the hedging instrument is recognised in the statement of other comprehensive income and in equity. The ineffective portion is recognised in the statement of income. The effective portion is recorded in the statement of income when the investment in foreign entities is sold.

When the conditions of the effective hedge do not apply, gain or loss resulting from the change in the fair value of the hedging instrument is recorded in the statement of income in the same period.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

3.19 Foreign currencies

Transactions in foreign currencies during the year are recorded at the exchange rates prevailing at the date of the transaction. Balances of financial assets and financial liabilities denominated in foreign currencies are translated at the average rates prevailing on the statement of financial position date and using the rates declared by the Palestine Monetary Authority.

Non-monetary assets and liabilities denominated in foreign currencies and recorded at fair value are translated on the date when their fair value is determined.

Gains and losses resulting from foreign currency translation are recorded in the statement of income.

Translation differences on non-monetary assets and liabilities denominated in foreign currencies (such as equities) are recorded as part of the change in fair value.

3.20 Cash and cash equivalents

Cash and cash equivalents are the cash and cash balances maturing within three months, which include: Cash and balances with the Palestine Monetary Authority, deposits at banks and financial institutions. Banks and financial institutions deposits maturing within three months and restricted balances including the statutory reserve with the Palestine Monetary Authority are reduced.

3.21 Related parties

This item represents transactions made with related parties, which include key shareholders, directors, key management personnel of the Bank, and entities controlled or significantly influenced by such parties. Pricing policies and terms of these transactions with related parties are approved by the Bank’s Board of Directors.

3.22 Use of estimates

Preparation of the financial statements and the application of the accounting policies require the Bank's management to perform estimates and assumptions that affect the amounts of the financial assets and liabilities, fair value reserve and the disclosure of contingent liabilities. Moreover, these estimates and assumptions affect revenues, expenses, provisions, and changes in the fair value shown within the statement of comprehensive income. In particular, this requires the Bank's management to make significant judgments and assumptions to estimate future cash flow amounts and their timing. The mentioned estimates are based on assumptions and factors with varying degrees of consideration and uncertainty. In addition, actual results may differ from estimates due to the changes resulting from the conditions and circumstances of those estimates in the future.

The management of the Bank believes that its estimates in the financial statements are reasonable and detailed as follows:

- A provision is set for the lawsuits raised against the Bank. This provision is subject to an adequate legal study prepared by the Bank's legal advisors. Moreover, the study highlights potential risks that the Bank may encounter in the future. Such legal assessments are reviewed periodically.
- Management estimates the provision for credit facilities losses which constitute a decrease in the collectible amounts in accordance with the instructions of the Palestine Monetary Authority and the relevant IFRs. The strictest outcome that conforms to IFRs are adopted for this provision.
- Impairment of acquired assets is recorded based on recent and approved real estate evaluation conducted by appraisers/valuers approved for impairment calculation purposes. The impairment loss is reviewed periodically.
- The management reassesses the useful lives of tangible and intangible assets on a regular basis for the purpose of calculating the annual depreciations and amortisations depending on the general condition of these assets and estimates of the expected useful lives in the future, and impairment loss (if any) is stated in the statement of income.
- Management records the annual taxes expenses according to the local laws and regulations and the accounting standards. The Management also calculates the deferred tax assets and liabilities and income tax provision as required.
- Provision for end-of-Service indemnity is calculated according to the Palestinian Labour law.

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

- Management frequently reviews the financial assets stated at cost to estimate any impairment. Impairment is stated in the statement of income. The management estimates impairment in fair value when market prices reach a certain level that is considered an indicator of impairment loss and is consistent with the regulatory authorities' regulations and IFRS.

- The Bank determines and discloses the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Difference between Level 2 and Level 3 of fair value measurements is represented in note (39); which assesses whether information or inputs are observable and whether the unobservable inputs are significant, which may require judgment and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

Management believes that the estimates used in the preparation of the financial statements are reasonable and appropriate.

Note (4) Cash and balances with Palestine Monetary Authority

Item details -

	2017	2016
Cash in treasury and on hand	161,702,759	92,508,754
Balances at Palestine Monetary Authority:		
Current and demand accounts	23,100,396	36,429,113
Statutory cash reserve	72,687,845	67,149,950
	257,491,000	**196,087,817**

According to Palestine Monetary Authority (PMA) instructions No. (67/2010), the Bank is required to maintain a 9% statutory cash reserve with PMA of all customer deposits for all currencies. Palestine Monetary Authority does not pay interest on these statutory reserves. According to instruction No. (2/2012) the outstanding balance of the facilities granted in Jerusalem are deducted for some sectors before calculating the statutory cash reserve.

- Palestine Monetary Authority does not pay interest on these reserves based on the above instructions.
- Palestine Monetary Authority pays interest on capital deposits according to the prevailing interest rates in the market after deducting commission.
- According to the above instructions, the Bank is required to transfer 20% of the statutory reserve to a non-fixed balance and is added to the current accounts with PMA and the remaining 80% is maintained as fixed account.

Note (5) Balances at banks and financial institutions

Item details -

	2017	2016
Local banks and financial institutions:		
Deposits maturing within three months	18,395,604	7,569,271
Foreign banks and financial institutions:		
Current and on demand accounts	34,443,174	32,603,673
Deposits maturing within three months	19,131,479	17,479,758
	53,574,653	**50,083,431**
	71,970,257	**57,652,702**

The non-interest bearing balances at banks and financial institutions amounted to USD 34,586,587 as at December 31, 2017 and USD 32,747,084 as at December 31, 2016.

The restricted balances amounted to USD 143,414 as at December 31, 2017 and USD 143,411 as at December 31, 2016.

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (6) Financial assets at fair value through statement of income

This item represents quoted stocks in Palestine Exchange at fair value amounted to USD 103,260 and USD 96,820 as at December 31, 2017 and 2016 respectively.

Note (7) Direct credit facilities

Item details -

	2017	2016
Loans	566,270,781	543,046,584
Debit and overdraft accounts	85,967,109	69,458,357
Discounted bills	11,294,296	8,692,696
	663,532,186	**621,197,637**
Less:		
Suspended interest and commissions	(368,380)	(503,106)
Provision for impairment of direct credit facilities	(4,645,843)	(4,554,172)
	658,517,963	**616,140,359**

Balance of bills and loans represents the net amount after deducting interests and commissions received in advance in the amount of USD 2,686,066 as at December 31, 2017 (USD 1,691,300 as at December 31, 2016).

The non-performing credit facilities after deducting outstanding interests amounted to USD 16,468,575 representing 2.49% of the total direct credit facilities as at December 31, 2017 compared to USD 15,317,543 representing 2.47% of the total direct credit facilities as at December 31, 2016 after deducting suspended interests.

The non-performing debts as at December 31, 2017 amounted to USD 14,334,539 compared to USD 10,176,728 as at December 31, 2016.

The value of the non-performing credit facilities for a period more than 6 years amounted to USD 9,035,530 as at December 31, 2017 compared to USD 6,599,697 as at December 31, 2016.

Total loans and overdrafts granted to the Palestinian National Authority and its ministries amounted to USD 33,014,970 as at December 31, 2017 representing 4.98% of direct credit facilities compared to USD 144,377,783 as at December 31, 2016 representing 23.25% of direct credit facilities.

The fair value of collaterals against the credit facilities amounted to USD 130,741,240 as at December 31, 2017 compared to USD 96,938,104 as at December 31, 2016.

Credit facilities granted to public sector employees amounted to USD 185,570,219 as at December 31, 2017 representing 27.97% of total granted credit facilities and an amount of USD 149,302,055 as at December 31, 2016 representing 24.04% of the total granted credit facilities.

The total credit facilities granted to non-residents amounted to USD 3,517,754 as at December 31, 2017 and USD 3,419,035 as at December 31, 2016.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

The movement on suspended interests during the year is as follows:

	2017	2016
Balance at beginning of the year	**503,106**	**512,870**
Suspended interest during the year	283,902	30,358
Interest transferred to revenue	(22,123)	(9,144)
Suspended interest written off	-	(30,978)
Suspended interest over facilities non-performing for more than 6 years	(395,820)	-
Currency variances	(685)	-
Balance at end of the year	**368,380**	**503,106**

The movement on the provision for impairment of direct credit facilities during the year is as follows:

	2017	2016
Balance at beginning of the year	**4,554,172**	**3,323,133**
Additions to the provision during the year	3,853,804	2,369,572
Recovery of provision for impairment of credit facilities	(1,689,869)	(1,150,069)
Provision written off	-	(4,236)
Disposal of provisions of impairment of facilities non-performing for more than 6 years	(2,257,393)	-
Currency variances	185,129	15,772
Balance at end of the year	**4,645,843**	**4,554,172**

The movement on the provision for impairment of direct credit facilities non-performing for more than 6 years is as follows:

	2017	2016
Balance at beginning of the year	**6,567,622**	**6,943,540**
Transferred from provisions of facilities non-performing for more than 6 years	2,257,393	-
Bad debts	-	(289,343)
Disposals	(321,072)	(132,319)
Currency variances	329,450	45,744
Balance at end of the year	**8,833,393**	**6,567,622**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Distribution of credit facilities (before allowance for doubtful accounts) on the economic sectors:

	2017	2016
Public sector		
Palestinian National Authority	33,014,970	144,377,783
Other public sector non-financial institutions	-	20,599
Total public sector	**33,014,970**	**144,398,382**
Private sector		
Real estate and constructions		
Constructions	28,505,038	19,789,000
Accommodation and improving housing conditions	2,994,298	4,896,524
Real estate, business and investment	11,814,969	11,198,474
	43,314,305	**35,883,998**
Lands		
For investment	**8,921,443**	**7,974,734**
Industry and mineral sector		
Industry	**46,455,704**	**28,056,049**
General trading sector		
Internal trading	**140,994,550**	**81,215,350**
Agriculture and livestock sector		
Agriculture	8,645,770	10,298,011
Livestock	27,844,592	29,254,588
	36,490,362	**39,552,599**
Tourism and other restaurants and hotels sector	**12,644,130**	**8,923,320**
Transport	**2,246,800**	**4,154,323**
Services sector		
Financial services	**28,387,253**	**26,320,788**
Public services sector		
Communications	2,423,876	1,230,354
Health	643,407	354,124
Education	5,330,474	5,962,887
Public utilities	5,513,233	2,310,010
Professionals	40,281,862	13,885,671
	54,192,852	**23,743,046**
Financing investment in equities and financial instruments		
Others	-	-
Car financing	**17,019,648**	**12,178,484**
Financing consumer goods		
Credit cards	5,846,546	5,688,009
Others	227,771,661	196,633,093
Others in the private sector	5,863,582	5,972,356
	239,481,789	**208,293,458**
Total public and private sector facilities	**663,163,806**	**620,694,531**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Credit facilities guaranteed by the loans guarantee institutions are as follows:

2017

Facility type	Granted amount	Outstanding balance	Bank's carrying percentage	Non-performing debts
Direct facilities	2,048,447	1,202,416	30%	160,173
Direct facilities	1,515,851	1,101,328	15% - 35%	-
	3,564,298	**2,303,744**		**160,173**

2016

Facility type	Granted amount	Outstanding balance	Bank's carrying percentage	Non-performing debts
Direct facilities	5,929,715	3,096,842	30%	350,801
Direct facilities	1,853,638	1,399,911	15% - 35%	-
	7,783,353	**4,496,753**		**350,801**

Note (8) Financial assets at fair value through statement of comprehensive income

Item details -

	2017	2016
Quoted shares in Palestine Exchange	2,661,829	12,090,667
Unquoted financial assets (local)	396,500	271,500
	3,058,329	**12,362,167**

Movement of fair value reserve is as follows:

	2017	2016
Balance at beginning of the year	**1,734,184**	**153,909**
Unrealised gains	2,482,923	1,644,134
Gains from sale of financial assets through comprehensive income	(6,999,481)	(63,859)
Balance at end of the year	**(2,782,374)**	**1,734,184**

Note (9) Financial assets at amortised cost

Item details -

December 31, 2017	Governmental bonds	Financial bonds quoted in financial markets	Total
Financial assets at amortised cost (local)	-	3,770,000	**3,770,000**
Financial assets at amortised cost (foreign)	5,639,145	-	**5,639,145**
	5,639,145	**3,770,000**	**9,409,145**

December 31, 2016	Governmental bonds	Financial bonds quoted in financial markets	Total
Financial assets at amortised cost (local)	-	2,980,000	**2,980,000**
Financial assets at amortised cost (foreign)	5,639,145	2,563,310	**8,202,455**
	5,639,145	**5,543,310**	**11,182,455**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (10) Property and equipment

December 31, 2017	Lands	Buildings	Furniture and office equipment	Computers and information systems	Vehicles	Leasehold improvements	Total
Cost							
Balance at beginning of the year	10,632,276	4,059,034	3,885,329	8,982,641	679,045	14,808,925	**43,047,250**
Additions	2,460,503	-	375,700	2,126,834	398,789	920,825	**6,282,651**
Transfers	-	-	-	-	-	-	**-**
Disposals	-	-	(66,890)	(155,796)	(302,000)	(159,005)	**(683,691)**
Balance at end of the year	**13,092,779**	**4,059,034**	**4,194,139**	**10,953,679**	**775,834**	**15,570,745**	**48,646,210**
Accumulated depreciation							
Balance at beginning of the year	-	641,805	2,172,809	5,423,811	290,669	7,665,333	**16,194,427**
Additions	-	81,182	381,419	881,287	82,664	1,169,236	**2,595,788**
Transfers	-	-	-	-	-	-	**-**
Disposals	-	-	(34,187)	(110,659)	(139,912)	(137,579)	**(422,337)**
Balance at end of the year	**-**	**722,987**	**2,520,041**	**6,194,439**	**233,421**	**8,696,990**	**18,367,878**
Net book value December 31, 2017	**13,092,779**	**3,336,047**	**1,674,098**	**4,759,240**	**542,413**	**6,873,755**	**30,278,332**

December 31, 2016	Lands	Buildings	Furniture and office equipment	Computers and information systems	Vehicles	Leasehold improvements	Total
Cost							
Balance at beginning of the year	5,513,219	4,059,034	3,413,396	10,711,627	746,410	11,677,026	**36,120,712**
Additions	5,119,057	-	250,518	653,202	253,452	1,057,521	**7,333,750**
Transfers	-	-	229,418	(2,324,326)	-	2,094,908	**-**
Disposals	-	-	(8,003)	(57,862)	(320,817)	(20,530)	**(407,212)**
Balance at end of the year	**10,632,276**	**4,059,034**	**3,885,329**	**8,982,641**	**679,045**	**14,808,925**	**43,047,250**
Accumulated depreciation							
Balance at beginning of the year	-	560,625	1,651,135	6,328,589	332,737	4,980,575	**13,853,661**
Additions	-	81,180	341,656	858,532	75,693	1,120,433	**2,477,494**
Transfers	-	-	185,533	(1,750,474)	-	1,564,941	**-**
Disposals	-	-	(5,515)	(12,836)	(117,761)	(616)	**(136,728)**
Balance at end of the year	**-**	**641,805**	**2,172,809**	**5,423,811**	**290,669**	**7,665,333**	**16,194,427**
Net book value December 31, 2016	**10,632,276**	**3,417,229**	**1,712,520**	**3,558,830**	**388,376**	**7,143,592**	**26,852,823**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (11) Intangible assets

Item details -

	2017	2016
Balance at beginning of the year	**24,244**	**26,007**
Amortisation during the year	(1,763)	(1,763)
Balance at end of the year	**22,481**	**24,244**

Note (12) Deferred tax assets

Item details -

	2017	2016
Balance at beginning of the year	**1,066,727**	**1,066,727**
Provision for end of services indemnity	-	-
Provision for lawsuits	-	-
Balance at end of the year	**1,066,727**	**1,066,727**

Note (13) Other assets

Item details -

	2017	2016
Claims under collections	28,003,410	23,778,101
Accrued interests	2,856,403	2,806,918
Assets repossessed as settlement of debts (*)	1,328,385	1,328,385
Assets held for sale	1,431,480	1,431,480
Prepaid expenses	1,582,253	1,762,793
Payments to investment account	1,369,467	1,286,295
Foreign currencies sale/purchase contracts (clients) (**)	3,230,926	739,423
Refundable legal fees	414,272	362,242
Net debit forward currency exchange deals	48,731	1,214,335
Stationery and publications inventory	379,621	281,813
	40,644,948	**34,991,785**

(*) According to the Palestine Monetary Authority instructions, the Bank must sell the buildings and lands that reverted to the Bank for the settlement of customers' debts within two years from the date of its acquisition, and can be extended up to another 3 years as a maximum.

Following is a summary of movement on assets acquired against settlement of debts:

	2017	2016
Balance at beginning of the year	**1,328,385**	**1,746,241**
Less: Disposed properties	-	(417,856)
Balance at end of the year	**1,328,385**	**1,328,385**

(**) Following is a summary of forward currency exchange deals as at December 31, 2017:

	Net credit forward currency exchange deals	Net debit forward currency exchange deals	Total nominal value
Forward deals contracts			
Purchase of forward contracts in foreign currencies	-	48,731	(165,253,112)
Sale of forward contracts in foreign currencies	(929,358)	-	164,372,485
	(929,358)	**48,731**	**(880,627)**

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (14) Banks and financial institutions deposits

Item details -

	2017	2016
Local banks and financial institutions:		
Current and demand accounts	657,261	615,815
Term deposits maturing within three months	11,902,665	31,335,255
Foreign banks and financial institutions		
Term deposits maturing within three months	3,000,000	8,500,000
	15,559,926	**40,451,070**

Note (15) Customers' deposits

Item details -

	2017	2016
Current and on demand deposits	222,422,153	216,649,191
Saving deposits	316,081,999	267,099,107
Term deposits subject to note	247,465,894	252,332,226
	785,970,046	**736,080,524**

- The total public sector deposits as at December 31, 2017 amounted to USD 11,199,586 representing 1.43% of total deposits against USD 26,399,055 representing 3.59% of total deposits as at December 31, 2016.

- The total non-interest bearing deposits as at December 31, 2017 amounted to USD 222,749,634 representing 28.34% of total deposits against USD 216,507,526 representing 29.42% of total deposits as at December 31, 2016.

- The total dormant deposits as at December 31, 2017 amounted to USD 22,092,251 representing 2.81% of total deposits against USD 30,749,166 representing 4.18% of total deposits as at December 31, 2016.

- The total customers' deposits in foreign currencies as at December 31, 2017 amounted to USD 431,185,948 against USD 424,152,364 as at December 31, 2016.

- The total non-resident customers' deposits as at December 31, 2017 amounted to USD 15,831,659 against USD 18,868,265 as at December 31, 2016.

Note (16) Cash margins

Item details -

	2017	2016
Cash margins against direct facilities	45,626,165	27,242,156
Cash margins against indirect facilities	9,777,581	5,653,711
Other cash margins	13,975,134	8,687,222
	69,378,880	**41,583,089**

Note (17) Borrowed funds

This amount represents the outstanding balance of the Palestine Mortgage and Housing Corporation as at December 31, 2017 to finance the housing loans granted by Quds Bank for a period up to five years. According to the agreement between Quds Bank and Palestine Mortgage and Housing Corporation dated June 4, 2014 the interest rate is determined upon the request of the refinancing loans.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (18) Other provisions

Item details -

December 31, 2017	**Balance at beginning of the year**	**Provision for the year**	**Paid during the year**	**Balance at end of the year**
Provision for end of service indemnity	4,435,084	1,580,570	(952,550)	**5,063,104**
Provision for lawsuits	102,767	38,530	(41,297)	**100,000**
	4,537,851	**1,619,100**	**(993,847)**	**5,163,104**

December 31, 2016	**Balance at beginning of the year**	**Provision for the year**	**Paid during the year**	**Balance at end of the year**
Provision for end of service indemnity	4,106,457	968,645	(640,018)	**4,435,084**
Provision for lawsuits	102,767	-	-	**102,767**
	4,209,224	**968,645**	**(640,018)**	**4,537,851**

Note (19) Tax provision

Following is a summary of movement on the provision for income tax for the year ended December 31, 2017 and the year ended December 31, 2016:

	2017	**2016**
Balance at beginning of the year	**161,672**	**640,823**
Provision for the year	4,002,300	2,165,362
Incentive tax discounts	(102,300)	(188,784)
Paid during the year	(2,009,674)	(2,455,729)
Balance at end of the year	**2,051,998**	**161,672**

A final settlement with the income tax department till the end of the year 2012 was conducted. As of the financial statements date, the Bank has not reached a final settlement with the income tax department for the years from 2013 to 2017. The Bank's tax consultant is currently working for a final settlement with the income tax department for these years.

Income tax provision for the years ended December 31, 2017 and 2016 was calculated according to applicable laws and regulations and International Financial Reporting Standards.

The following is a reconciliation between accounting profit and tax profit:

	2017	**2016**
Accounting profit of the Bank	15,080,462	12,447,282
VAT taxable profit (*)	**9,161,797**	**8,770,373**
<u>Less:</u>		
VAT	(1,263,696)	(1,209,707)
Taxable profit for income tax, net of VAT	9,687,094	5,971,030
Income tax	1,453,064	895,655
Total calculated income tax and VAT	**2,716,760**	**2,105,362**
Income tax allocated for the year	**4,002,300**	**2,165,362**
Incentive tax discounts	(102,300)	(188,784)
Tax expense stated in the income statement of the year	**3,900,000**	**1,976,578**

(*) This item represents the VAT taxable profit of the Bank's branches operating in the northern governorates (West Bank areas) for 2017 in accordance with the presidential decree issued in June 2007 in relation to the exemption of taxpayers in southern governorates (Gaza Strip) from taxes. Revenues and expenses of the Bank's branches are distributed according to estimations specified by management.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (20) Other liabilities

Item details -

	2017	2016
Accrued and unpaid interests	2,233,884	2,134,902
Accrued and unpaid expenses	998,171	284,600
Checks and outstanding money transfer orders	13,181,504	11,940,951
Temporary trusteeships	1,233,309	990,996
Accrual for Directors’ remuneration	300,000	155,148
Accounts payable	3,495,514	2,533,489
Taxes deducted from customers and employees’ salaries	217,202	117,842
Unpaid cash dividends	63,983	64,357
Net credit forward currency exchange deals (Note 13**)	929,358	607,258
Received commissions that are not due	4,359,499	2,969,765
Others	44,565	801,383
	27,056,989	**22,600,691**

Note (21) Paid-in capital

Capital risk management
The main objective of the Bank's capital management is to maintain capital ratios that supports the Bank's activities and achieves the highest levels to shareholders' equity. The Bank did not make any modifications to the objectives and policies relating to the structure of the capital during the current year or the previous year.

During 2017, the paid-in capital was increased by an amount of USD 7,326,000 to become USD 68,376,000 through issuing equities totalling USD 7,326,000.

The basic and regulatory capital details are as follows:

	2017			2016		
	Ratio to risk-weighted assets	Ratio to assets	USD	Ratio to risk-weighted assets	Ratio to assets	USD
Basic capital	11.78%	8.01%	86,182,956	13.60%	7.58%	72,793,796
Regulatory capital	13.02%	8.86%	95,275,549	13.92%	7.76%	74,516,797

Note (22) Dividends

On its meeting held on May 8, 2017 the Bank’s General Assembly approved distribution of dividends representing bonus shares of 12% totalling USD 7,326,000 for the results of the Bank’s operations in 2016 to the Bank's shareholders on a pro-rata basis. The paid-in capital was increased by USD 7,326,000 to become USD 68,376,000 through capitalising a part of the cyclical fluctuations reserve of USD 3,327,181 and capitalising USD 3,998,819 from retained earnings - Note (23).

Note (23) Reserves

Statutory reserve:
In accordance with the Corporate Law and Banking Law in Palestine, 10% of the annual net income is deducted as a statutory reserve. The deduction shall not be suspended before the total accumulated amount in this account reaches one quarter of the Bank's capital. This reserve must not be distributed to the Bank’s shareholders without the prior approval from Palestine Monetary Authority.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

General banking risks reserve:
This item represents a general banking risks reserve and is calculated according to the instructions of Palestine Monetary Authority's Circular No. (6/2015) as 1.5% of direct credit facilities after the provision for impairment of direct credit facilities and outstanding interests and 0.5% of indirect credit facilities after deducting checks under collection, acceptable guarantees and acceptable guaranteed withdrawals relating to letters of credits received. This reserve may not be used or reduced without a prior approval from Palestine Monetary Authority. Excluded from this item are the facilities granted to small businesses in accordance with the Circular No. (53/2013).

Reserve for cyclical fluctuations:
This item represents risk reserve that is deducted according to the instructions of the Palestine Monetary Authority’s Circular No. (6/2015) of 15% of the annual net profit after tax in order to improve the Bank's capital to face the surrounding banking risks. The deduction will continue till the reserve balance reaches 20% of the Bank's paid-in capital. This reserve may not be used or reduced without a prior approval from Palestine Monetary Authority. During 2017, an amount of USD 3,327,181 was capitalised from the balance of the cyclical fluctuations reserve as a part of the dividends announced in 2017 in respect of the results of the Bank for 2016 - Note (22) after obtaining the approval of the Palestinian Monetary Authority (Letter No. D4 - 3210/03/2017) dated March 20, 2017.

Note (24) Interest income

Item details -

	2017	2016
Loans	34,190,449	31,133,732
Current accounts and overdraft accounts	8,226,836	5,278,983
Discounted bills	624,672	369,711
Balances at banks and financial institutions	902,377	477,001
Currency exchange differences	37,823	14,698
Credit cards	1,670,753	1,137,969
Financial assets at amortised cost	598,813	707,804
	46,251,723	**39,119,898**

Note (25) Interest expense

This item consists of interest expense on the following accounts:

	2017	2016
Interests on customers' deposits		
Customers' time deposits	8,134,967	6,823,880
Customers’ saving deposits	1,643,266	831,920
Customers' current and demand deposits	123,644	174,376
	9,901,877	**7,830,176**
Interest on banks and financial institutions	666,684	344,246
Interest on Palestine Monetary Authority deposits	324,413	86,638
Others		
Interest paid for cash margins	657,918	378,037
Cost of swaps financing	18,557	45,554
	676,475	**423,591**
	11,569,449	**8,684,651**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (26) Net commissions income

Item details -

	2017	2016
Commission income		
Direct credit facilities	5,099,387	3,379,691
Indirect credit facilities	918,532	460,327
Others	6,224,381	4,741,304
	12,242,300	**8,581,322**
Commission expense		
Local banks and institutions	53,641	85,189
Foreign banks and institutions	332,697	291,672
Commission paid on cards and money transports	1,858,983	1,134,994
	2,245,321	**1,511,855**
	9,996,979	**7,069,467**

Note (27) Net gain from financial assets

Item details -

	2017	2016
Shares of listed companies		
Unrealised gains from revaluation of financial assets at fair value through statement of income	6,440	170
Dividend income	519,651	423,065
	526,091	**423,235**

Note (28) Other revenues

Item details -

	2017	2016
Checkbooks	425,503	410,190
Postal revenues	178,823	169,999
Safe boxes rental	57,291	41,716
Fax, telegram and telephone revenues	28,227	41,263
Other miscellaneous income	329,424	252,476
	1,019,268	**915,644**

Note (29) Personnel costs

Item details -

	2017	2016
Salaries, wages and benefits	13,570,689	11,489,741
VAT on payroll	2,055,009	1,504,014
Medical expenses	718,214	690,840
Bank's contribution in provident fund (*)	572,948	517,956
Travel and transportation expenses	316,833	310,461
Employees’ leave allowance	98,393	132,378
Staff training expenses	332,824	164,119
Employees’ life insurance	73,545	61,593
Employees’ uniform	78,975	100,111
	17,817,430	**14,971,213**

(*) This item represents the Bank’s contribution to provident fund which represents 10% of the employees’ basic salary. As for the employees’ contribution, 5% of their salary is deducted monthly and contribution can be increased up to 10%.

Deductions to the provident fund are presented in the customers’ deposit account.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (30) Other operating expenses

Item details -

	2017	2016
Rents	1,542,233	1,486,288
Deposit insurance fee *	2,369,177	1,801,033
Mail, phone and swift	1,432,610	1,268,114
Cleaning expenditures	298,428	258,083
Maintenance and repairs	1,035,439	877,168
Fees, licenses and subscriptions	476,982	459,704
Water, electricity and heating	738,017	632,770
Advertising and publicity	578,578	1,047,434
Stationery, printing and checkbooks	458,206	408,969
Donations and sponsorships**	1,155,754	290,283
Insurance charges	152,252	129,967
Consulting and legal fees	412,897	388,740
Software	154,086	111,745
Hospitality	107,808	105,582
Meeting expenses	247,835	180,557
Board of Directors’ expenses and remuneration	413,336	209,315
Services	214,487	108,953
Fees and taxes	222,980	226,655
Vehicle and transportation expenses	181,408	138,588
Loss from disposal of property and equipment	36,320	59,640
Other expenses	474,166	387,544
	12,702,999	**10,577,132**

* According to the Palestinian Deposit Insurance Corporation Law No. (7) for the year 2013, the Bank has deducted 0.3% of the total deposits for the Palestinian Deposit Insurance Corporation. All banks are required to pay annual subscription fee starting from the year 2014.

** Total Bank's contribution for social responsibility amounted to USD 1,155,754 for the year 2017, which represents 10.34% of the profits compared to USD 290,283 during the year 2016 which represents 2.78% of the profits.

The aim of social responsibility is to support and assist the society through sponsoring and supporting planned, organised and diversified activities. The social responsibility derives strength from its discretionary nature, taking into consideration the three pillars defined by the World Business Council for Sustainability which are: economic growth, social progress and environmental protection.

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (31) Business sectors

The Bank's businesses are divided into three major business segments:

Individuals sector: banking business for individuals consists of personal current accounts, savings accounts, deposits, credit cards and loans.
Companies and institutions sector: includes follow-up of deposits, credit facilities and other banking services.
Treasury business sector: includes trading services, financial market and foreign exchange transactions and management of bank resources and investments.

	Individuals	Companies and institutions	Treasury	Others	2017	2016
Total revenues	24,309,287	29,306,470	7,507,950	4,358,518	65,482,225	54,019,605
Provision for impairment of facilities, net	(1,713,983)	(128,880)	-	-	(1,842,863)	(1,087,184)
Business sector results	22,595,304	29,177,590	7,507,950	4,358,518	**63,639,362**	**52,932,421**
Unallocated expenses	-	-	-	-	(48,558,900)	(40,485,139)
Profit before taxation	-	-	-	-	**15,080,462**	**12,447,282**
Tax expense	-	-	-	-	(3,900,000)	(1,976,578)
Net profit for the year	**-**	**-**	**-**	**-**	**11,180,462**	**10,470,704**
Other information:						
Sectors' assets	283,601,918	341,901,070	375,046,967	75,079,579	**1,075,629,534**	**960,072,367**
Sectors' liabilities	472,222,626	383,129,889	82,896,155	34,650,190	**972,898,860**	**871,005,078**
Capital expenditures	-	-	-	-	**6,282,651**	**7,333,750**
Depreciation and amortisation	-	-	-	-	**2,597,551**	**2,479,257**

Concentration of credit exposures in terms of geographical distribution

	Inside Palestine		Outside Palestine		Total	
	2017	2016	2017	2016	2017	2016
Profit for the year	9,809,837	9,528,080	1,370,625	942,624	**11,180,462**	**10,470,704**
Assets	1,016,415,736	901,784,437	59,213,798	58,287,930	**1,075,629,534**	**960,072,367**
Capital expenditures	6,282,651	7,333,750	-	-	**6,282,651**	**7,333,750**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (32) Concentration of credit exposures in terms of geographical distribution

Item details in 2017:

	Palestine	Jordan	Israel	Others	Total
Cash and balances with Palestine Monetary Authority and financial institutions	257,491,000	-	-	-	**257,491,000**
Balances at banks and financial institutions	18,395,604	11,733,780	11,473,483	30,367,390	**71,970,257**
Financial assets at fair value through statement of income	103,260	-	-	-	**103,260**
Direct credit facilities	658,517,963	-	-	-	**658,517,963**
Financial assets through statement of comprehensive income	3,058,329	-	-	-	**3,058,329**
Financial assets at amortised cost	3,770,000	5,639,145	-	-	**9,409,145**
Property and equipment	30,278,332	-	-	-	**30,278,332**
Projects under construction	3,067,092	-	-	-	**3,067,092**
Intangible assets	22,481	-	-	-	**22,481**
Deferred tax assets	1,066,727	-	-	-	**1,066,727**
Other assets	40,644,948	-	-	-	**40,644,948**
	1,016,415,736	**17,372,925**	**11,473,483**	**30,367,390**	**1,075,629,534**
Unutilised credit facilities limits	19,591,738	-	-	-	**19,591,738**
Letter of guarantees	57,667,325	-	-	-	**57,667,325**
Letters of credit	7,062,311	-	-	-	**7,062,311**
Acceptable withdrawals and policies	3,975,218	-	-	-	**3,975,218**
	88,296,592	-	-	-	**88,296,592**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Item details in 2016:

	Palestine	Jordan	Israel	Others	Total
Cash and balances with Palestine Monetary Authority and financial institutions	196,087,817	-	-	-	**196,087,817**
Balances at banks and financial institutions	7,569,271	15,018,640	14,692,545	20,372,246	**57,652,702**
Financial assets at fair value through statement of income	96,820	-	-	-	**96,820**
Direct credit facilities	616,140,359	-	-	-	**616,140,359**
Financial assets through statement of comprehensive income	12,362,167	-	-	-	**12,362,167**
Financial assets at amortised cost	2,980,000	5,639,144	-	2,563,311	**11,182,455**
Property and equipment	26,852,823	-	-	-	**26,852,823**
Projects under construction	3,614,468	-	-	-	**3,614,468**
Intangible assets	24,244	-	-	-	**24,244**
Deferred tax assets	1,066,727	-	-	-	**1,066,727**
Other assets	34,991,785				**34,991,785**
	901,786,481	**20,657,784**	**14,692,545**	**22,935,557**	**960,072,367**
Unutilised credit facilities limits	24,846,821	-	-	-	**24,846,821**
Letter of guarantees	29,745,964	-	-	-	**29,745,964**
Letters of credit	5,808,132	-	-	-	**5,808,132**
Acceptable withdrawals and policies	780,020	-	-	-	**780,020**
	61,180,937	**-**	**-**	**-**	**61,180,937**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (33) C ontingent liabilities (off statement of financial position)

Item details -

	2017	2016
Unutilised credit facilities limits	19,591,738	24,846,821
Letter of guarantees	57,667,325	29,745,964
Letters of credit	7,062,311	5,808,132
Acceptable withdrawals and policies	3,975,218	780,020
	88,296,592	**61,180,937**

Note (34) Related party transactions

This item represents transactions made with related parties, which include key shareholders, directors, key management personnel and entities controlled or significantly influenced by such parties. Pricing policies and terms of these transactions with related parties are approved by the Bank's Board of Directors. Transactions made during the year with these parties are presented as follows:

	2017		
	Board of Directors and Executive Management	**Others**	**Total**
Statement of financial position items			
Direct facilities	6,166,360	26,957,559	**33,123,919**
Deposits	29,262,500	-	**29,262,500**
Accrued benefits	300,000	-	**300,000**
Contingences			
Indirect facilities	71,417	8,660,000	**8,731,417**
Statement of income items			
Interest and commissions income	758,227	88,048	**846,275**
Interest and commissions expense	466,305	-	**466,305**
Salaries and benefits	1,251,764	-	**1,251,764**
Borad of directors' meeting sitting fees allowance	413,336	-	**413,336**

	2016		
	Board of Directors and Executive Management	**Others**	**Total**
Statement of financial position items			
Direct facilities	5,094,156	9,190,276	**14,284,432**
Deposits	4,053,780	-	**4,053,780**
Accrued benefits	155,148	-	**155,148**
Contingences			
Indirect facilities	68,631	189,350	**257,981**
Statement of income items			
Interests and commissions income	575,942	113,653	**689,595**
Interests and commissions expense	19,264	-	**19,264**
Salaries and benefits	1,168,961	-	**1,168,961**
Sitting fees and remuneration	209,315	-	**209,315**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Related parties' facilities:

	% of net facilities	% of capital base	Classified	Related provisions
For the year ended December 31, 2017				
Facilities to related parties				
Related parties				
Board of Directors and executive management	0.94%	6.47%	-	-
Other related parties	4.09%	28.29%	-	-
			-	**-**
For the year ended December 31, 2016				
Facilities to related parties				
Related parties				
Board of Directors and executive management	%0.83	%6.84	-	-
Other related parties	%1.49	%12.33	525,263	-
			525,263	**-**

Note (35) Cash and cash equivalents

Item details -

	2017	**2016**
Cash and balances with Palestine Monetary Authority	257,491,000	196,087,817
Balances at banks and financial institutions maturing within three months	71,970,257	57,652,702
	329,461,257	**253,740,519**
Less:		
Deposits of banks and financial institutions and PMA maturing within three months	(82,896,155)	(65,451,070)
Requirements of statutory cash reserve	(72,687,845)	(67,149,950)
	173,877,257	**121,139,499**

Note (36) Litigations against the Bank

There are lawsuits filed against the Bank to revoke the Bank's claims against others and/or to claim damage and/or labour and other claims. There are 8 lawsuits for 2017 against 25 lawsuits for 2016. The legal department of the Bank believes that the amount of lawsuits that may result in future liabilities is USD 3,153,636 for 2017 against USD 3,042,139 for 2016. The provision made for lawsuits amounted to USD 100,000 for 2017 against USD 102,767 for 2016. According to the Bank's legal advisor, this provision is sufficient to cover such lawsuits.

Note (37) Palestine Monetary Authority fines

This amount represents fines due to non-compliance with the Palestinian Monetary Authority instructions in relation to updating customer information.

Note (38) Basic and diluted earnings per share of profit for the year

Basic earnings per share is calculated by dividing profit on the average number of ordinary shares tradable during the year according to IAS No. (33) - Basic earnings per share.

	2017	**2016**
Profit for the year	11,180,462	10,470,704
Outstanding weighted average number of shares	68,376,000	68,376,000
Basic and diluted earnings per share of profit for the year	0.164	0.153

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Note (39) Financial instruments

Financial instruments

Financial instruments details and classification

The financial instruments of the Bank are financial assets and liabilities. Financial assets include cash balances, current accounts, deposits with Palestine Monetary Authority and banks, financial investments and loans to customers and banks. Financial liabilities include customer deposits and due to banks. Also, financial instruments include rights and obligations included in the items off the statement of financial position.

The fair value of financial assets and liabilities that are not carried at fair value in the financial statements are not significantly different from their carrying values, which are as follows:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances with Palestine Monetary Authority	257,491,000	257,491,000	196,087,817	196,087,817
Balances at banks and financial institutions	71,970,257	71,970,257	57,652,702	57,652,702
Direct credit facilities	658,517,963	658,517,963	616,140,359	616,140,359
Financial assets at fair value through statement of income	103,260	103,260	96,820	96,820
Financial assets at fair value through statement of comprehensive income	3,058,329	3,058,329	12,362,167	12,362,167
Financial assets at amortised cost	9,409,145	9,409,145	11,182,455	11,182,455
Liabilities				
Banks and financial institutions deposits and Palestine Monetary Authority	82,896,155	82,896,155	65,451,070	65,451,070
Customers' deposits	785,970,046	785,970,046	736,080,524	736,080,524
Cash margins	69,378,880	69,378,880	41,583,089	41,583,089
Borrowed funds	381,688	381,688	590,181	590,181

Below is a description of the methods and assumptions used to determine the fair value of financial instruments not stated at fair value in the financial statements:

- Financial instruments whose fair value approximates carrying value:
  These are financial assets and liabilities that have short-term maturities (less than three months) and its carrying value approximates their fair value.

- Financial instruments with fixed interest rate:
  The fair value of financial assets and liabilities that have a fixed interest rate is estimated by comparing market interest rates when listed at the first time with the current market prices for similar instruments.

Fair value measurement

The Bank uses the following hierarchy for determining and disclosing the fair values of its financial instruments:
- Level 1: Using quoted prices (unadjusted) for similar instruments in active markets for financial instruments.
- Level 2: Using data other than trading prices but can be observed directly or indirectly.
- Level 3: Using data not based on observable market data.

The table below represents fair value and its distribution according to a hierarchy as at the date of the financial statements:

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of comprehensive income				
Quoted shares	2,661,829	-	-	**2,661,829**
Unquoted shares	-	-	396,500	**396,500**
	2,661,829	**-**	**396,500**	**3,058,329**
Financial assets at fair value through statement of income				
Investments in local shares	103,260	-	-	**103,260**
	103,260	**-**	**-**	**103,260**
	2,765,089	**-**	**396,500**	**3,161,589**

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of comprehensive income				
Quoted shares	12,090,667	-	-	**12,090,667**
Unquoted shares	-	-	271,500	**271,500**
	12,090,667	**-**	**271,500**	**12,362,167**
Financial assets at fair value through statement of income				
Investments in local shares	96,820	-	-	**96,820**
	96,820	**-**	**-**	**96,820**
	12,187,487	**-**	**271,500**	**12,458,987**

Note (40) Risk management

General framework of risk management

The Bank determines the regulatory levels (lines of defence) to manage the risks on the Bank level through the development of the general framework of these levels as follows:

Business units: Represents employees that are part of first line defence, who are directly responsible for risk management and related control procedures.

Risk Management Department: Risk management employees are the elements of the second line of defence, and so they are responsible for coordinating the efforts of the risk management process and facilitating the supervision of the mechanisms used and applied by the Bank to manage the risks.

Compliance Department: Compliance management represent another element of the second line of defence. Compliance management employees ensure compliance with laws and regulations and instructions issued by Palestine Monetary Authority and other regulatory bodies and sound banking practices.

Internal Audit Department: The internal audit employees represent the third line of defence and are responsible for conducting an independent review of the regulatory procedures, processes and systems associated with the risk management process at the bank level.

The Bank has established a risk management committee which branches out from the Board of Directors to manage the risks. The function of this committee is ensure that all of risks which the Bank faces or could be exposed to, are efficiently managed to decrease its impact on various activities of the Bank and to ensure the competent management of risks and have it in line with the Bank's strategy in order to maximise shareholders equity and to maintain the Bank's growth within the approved risk framework. The committee carries out the following key tasks:

- Oversee the policies and risk management strategy and ensure that the risk management is performing its functions according to the adopted strategy and policies.
- Ensure provision of adequate and appropriate support for risk management department in order to perform its functions in accordance with the adopted policies and procedures and the instructions of Palestine Monetary Authority.
- Ensure using modern methods of management and evaluation of the Bank's risk.
- Review the periodic reports of risk management department.
- Review the acceptable risks levels adopted by the Bank and verify addressing the violations.
- Review internal evaluation document of the adequacy of the Bank's capital and submit it to the Board of Directors for approval, taking into account the Bank's strategic and capital plans.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

- Ensure the independence of risk management.
- Ensure the Bank's commitment to the instructions of the Palestine Monetary Authority.

In addition, the Bank has established the Executive Risk Management Committee, which supervises the management of all risks which the bank may face in addition to the general framework of risk management. The Executive Risk Management Committee shall also issue the necessary reports to the risk management derived from the board of directors.

On daily basis, the Risk Management manages the Bank's various risks (credit risk, operating risk and market risk) within the general framework of adopted risks management policies through the following:
- Risk Identification.
- Risk Assessment.
- Risk Control / Mitigation.
- Risk Monitoring.

Risk mitigation

As part of the risk management process, the Bank uses derivatives and other financial instruments to manage the positions arising from changes in interest and foreign exchange rates, capital and credit risks. Risks are assessed before entering into hedging operations. The risk department monitors the effectiveness of the hedging operations on a monthly basis, and in case there is ineffective hedging operations the Bank implements appropriate hedges to decrease the impact of these hedging operations.

40-1 Credit risk and concentration in assets and liabilities

Credit risk is defined as “the probability of not recovering the debt or interest on time and in full which would cause financial losses to the Bank”.

Moreover, credit risk represents the major portion of risks that the bank is exposed to in general. In recognition of this reality, the Bank has accorded credit risk management great significance through managing credit risks at the portfolio. To achieve this, based on the risk management strategy, the Bank has performed the following:

- Development of acceptable risk document and ceilings of credit risks (Risk Appetite) in order to mitigate the Bank's exposure to credit risks.

- Credit risk is mitigated through credit risk mitigators (cash or real estate collaterals, shares or others) in line with the credit risk faced by the Bank.

- Proper legal and credit documentation is applied for all conditions associated with the credit facilities.

Granting of credit facilities is the responsibility of the Credit Facilities Committee of the Bank in accordance with the requirements of the Bank’s credit policy and in line with the applicable powers as per the credit policy. The Credit Facilities Committee evaluates each credit request separately, based on the data provided by the customer such as audited financial statements and other explanatory data on client's financial solvency and the guarantees that can be obtained, as well as feasibility studies for projects subject of funding and the credit amount requested.

The Credit Facilities Committee of the Bank also collaborates with the internal audit team to monitor credit facilities granted to customers on a regular basis to identify any deviations that would expose the Bank to the risk of non-fulfilment of the commitments made by the client, and thus take the required procedures to protect the Bank’s money.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Credit facilities distributed based on exposures by the degree of risk in accordance with the following table:

	Individuals	Real estate loans	Large companies	Small and medium companies	Government and public sector	Total
2017/ USD						
Low risk	16,415,738	-	9,634,865	24,221,405	33,014,974	**83,286,982**
Acceptable risk	247,398,421	26,928,681	154,227,014	151,691,088	-	**580,245,204**
Of which is due:						
Watch list	668,316	-	1,042,128	423,592	-	**2,134,036**
Non-performing:						
Substandard	2,580,650	-	431,914	2,483,024	-	**5,495,588**
Doubtful	2,252,664	-	631,958	723,002	-	**3,607,624**
Bad debts	2,705,112	-	401,067	2,125,148	-	**5,231,327**
Total	**263,814,159**	**26,928,681**	**163,861,879**	**175,912,493**	**33,014,974**	**663,532,186**
Less: Suspended interests	(252,788)	-	-	(115,592)	-	**(368,380)**
Less: Impairment provision	(3,003,338)	-	-	(1,642,505)	-	**(4,645,843)**
Net	**260,558,033**	**26,928,681**	**163,861,879**	**174,154,396**	**33,014,974**	**658,517,963**

	Individuals	Real estate loans	Large companies	Small and medium companies	Government and public sector	Total
2016/ USD						
Low risk	5,340,348	8,387,862	31,570,734	44,177,157	144,398,382	**233,874,483**
Acceptable risk	201,309,085	13,244,302	82,566,248	90,203,519	-	**387,323,154**
Of which is due:						
Watch list	497,527	-	3,906,103	737,185	-	**5,140,815**
Non-performing:						
Substandard	724,909	-	274	2,196,946	-	**2,922,129**
Doubtful	731,712	-	-	1,090,279	-	**1,821,991**
Bad debts	1,655,200	-	-	3,777,408	-	**5,432,608**
Total	**206,649,433**	**21,632,164**	**114,136,982**	**134,380,676**	**144,398,382**	**621,197,637**
Less: Suspended interests	(80,306)	-	-	(422,800)	-	**(503,106)**
Less: Impairment provision	(1,480,441)	-	-	(3,073,731)	-	**(4,554,172)**
Net	**205,088,686**	**21,632,164**	**114,136,982**	**130,884,145**	**144,398,382**	**616,140,359**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

The following table shows the distribution of fair value of collaterals provided for facilities:

	Individuals	Real estate loans	Companies	Total
2017				
Low risk	13,412,400	-	32,213,765	**45,626,165**
Acceptable risk	2,018,945	8,591,283	69,582,575	**80,192,803**
Watch list	164,207	-	886,847	**1,051,054**
Non-performing:				
Substandard	838,258	-	1,738,833	**2,577,091**
Doubtful	463,588	-	830,539	**1,294,127**
Total	**16,897,398**	**8,591,283**	**105,252,559**	**130,741,240**
Of which:				
Cash margins	13,412,400	-	32,213,765	**45,626,165**
Property	3,044,998	8,591,283	68,148,341	**79,784,622**
Quoted shares	440,000	-	4,890,453	**5,330,453**
Total	**16,897,398**	**8,591,283**	**105,252,559**	**130,741,240**

	Individuals	Real estate loans	Companies	Total
2016				
Low risk	3,174,573	28,209	24,039,374	**27,242,156**
Acceptable risk	10,869,902	-	52,055,652	**62,925,554**
Watch list	-	-	2,471,618	**2,471,618**
Non-performing:				
Substandard	73,150	40,618	415,252	**529,020**
Doubtful	400,614	41,503	3,327,639	**3,769,756**
Total	**14,518,239**	**110,330**	**82,309,535**	**96,938,104**
Of which:				
Cash margins	8,545,219	28,209	25,079,090	**33,652,518**
Property	5,533,020	82,121	49,396,027	**55,011,168**
Quoted shares	440,000	-	7,834,418	**8,274,418**
Total	**14,518,239**	**110,330**	**82,309,535**	**96,938,104**

The framework applied by the Bank in classifying the credit facilities and acceptable collaterals when calculating and determining the amounts and provisions for impairment of credit facilities in order to cover the credit risk arising from doubtful and bad debts, is Palestine Monetary Authority's Circular No. (1) issued on January 20, 2008. This circular requires all banks operating in Palestine to assess their credit portfolio at least every three months and make the required provisions.

<u>40-2 Operational risk</u>

Operational risk is defined as “the risk of loss resulting from inadequacy or failure of internal processes, people and systems or from external events. This definition includes legal risks.

The Bank has applied a Control and Risk Self-Evaluation process to manage the operational risk at the Bank by using an automated system named CARE system. The Bank manages operational Risk on the following basis:

- Preparation of operational risk policy and adopt it by the Bank's management.
- Preparation of Risk Profiles to identify all risks and controls for key units.
- Use of an automated system (CARE System) to implement the Control and Risk Self-Evaluation process.
- Establish a database of events arising from operational risks and errors.
- Express an opinion on work procedures for risks and the effectiveness of related controls.
- Reporting to the Risk Management Committees (risk management committee derived from the board of directors and executive risk management committee).

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Compliance risk

Compliance risk is defined as the risk of legal and regulatory sanctions, material loss or reputation risk that the Bank may be exposed to due to the non-compliance with the applicable prevailing laws, regulations, instructions, code of ethics and the correct Banking practices.

Compliance with the laws and regulations issued by the regulatory authorities represents one of the most important risks which the Bank might be exposed to, due to the major financial losses resulting from the violation of the laws and instructions that affect the Bank's reputation. Moreover, the past few years witnessed many new regulations, instructions and laws organising the work of the various institutions. Accordingly, the need for managing the compliance risk of the Bank is necessary. Moreover, compliance enhances the efficiency of managing risks and decreases the costs that the Bank might be exposed to as a result of non-compliance with the prevailing laws and instructions.

Liquidity risk

Liquidity risk represents the risk that the Bank will be unable to maintain adequate funds to meet its obligations on maturity dates. In order to avoid such risk, management has diversified funding sources, managing of assets and liabilities and its maturities, and maintaining a sufficient balance of cash and cash equivalents and marketable securities. In addition, the Palestine Monetary Authority regularly monitors the liquidity situation in the banks by setting a percentage of deposits that the banks should keep constantly and should not fall under that limit. Furthermore, the Assets and Liabilities Committee at the Bank also monitors the Bank’s liquidity situation and the percentages stipulated by the Palestine Monetary Authority.

The following are details of the assets and liabilities of the Bank based on the remaining period to maturity dates as at December 31, 2017 and 2016:

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

December 31, 2017	Up to one month	More than one month up to 3 months	More than 3 month up to 6 months	More than 6 month up to one year	More than one year up to 3 years	More than 3 years	No maturity	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Assets								
Cash and balances with Palestine Monetary Authority	257,491,000	-	-	-	-	-	-	**257,491,000**
Balances at banks and financial institutions	59,612,317	12,357,940	-	-	-	-	-	**71,970,257**
Financial assets at fair value through statement of income	-	-	-	-	-	-	103,260	**103,260**
Direct credit facilities	37,909,453	18,154,222	29,122,993	69,972,454	46,655,418	456,703,423	-	**658,517,963**
Financial assets through statement of comprehensive income	-	-	-	-	-	-	3,058,329	**3,058,329**
Financial assets at amortised cost	-	-	-	-	5,639,145	3,770,000	-	**9,409,145**
Property and equipment	-	-	-	-	-	-	30,278,332	**30,278,332**
Projects under construction	-	-	-	3,067,092	-	-	-	**3,067,092**
Intangible assets	-	-	-	-	-	-	22,481	**22,481**
Deferred tax assets	-	-	-	-	1,066,727	-	-	**1,066,727**
Other assets	-	27,106,598	4,160,285	4,721,738	4,656,327	-	-	**40,644,948**
Total assets	**355,012,770**	**57,618,760**	**33,283,278**	**77,761,284**	**58,017,617**	**460,473,423**	**33,462,402**	**1,075,629,534**
Liabilities								
Banks and financial institutions deposits and Palestine Monetary Authority	59,114,855	23,781,300	-	-	-	-	-	**82,896,155**
Customers' deposits	276,119,432	152,947,459	137,017,686	162,819,501	57,065,968	-	-	**785,970,046**
Cash margins	4,483,460	1,912,658	3,068,285	7,372,024	4,915,433	47,627,020	-	**69,378,880**
Borrowed funds	381,688	-	-	-	-	-	-	**381,688**
Other provisions	-	-	-	-	5,163,104	-	-	**5,163,104**
Tax provision	-	-	-	2,051,998	-	-	-	**2,051,998**
Other liabilities	-	13,533,719	1,854,550	2,353,119	9,315,601	-	-	**27,056,989**
Total liabilities	340,099,435	192,175,136	141,940,521	174,596,642	76,460,106	47,627,020	-	**972,898,860**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**102,730,674**	**102,730,674**
Total liabilities and shareholders' equity	**340,099,435**	**192,175,136**	**141,940,521**	**174,596,642**	**76,460,106**	**47,627,020**	**102,730,674**	**1,075,629,534**
Gap in financial statements	**14,913,335**	**(134,556,376)**	**(108,657,243)**	**(96,835,358)**	**(18,442,489)**	**412,846,403**	**(69,268,272)**	**-**
Cumulative gap in liquidity risk	**14,913,335**	**(119,643,041)**	**(228,300,284)**	**(325,135,642)**	**(343,578,131)**	**69,268,272**	**-**	**-**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

December 31, 2016	Up to one month	More than one month up to 3 months	More than 3 month up to 6 months	More than 6 month up to one year	More than one year up to 3 years	More than 3 years	No maturity	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Assets								
Cash and balances with Palestine Monetary Authority	196,087,817	-	-	-	-	-	-	**196,087,817**
Balances at banks and financial institutions	50,332,102	7,320,600	-	-	-	-	-	**57,652,702**
Financial assets at fair value through statement of income	96,820	-	-	-	-	-	-	**96,820**
Direct credit facilities	49,274,390	17,248,202	14,395,016	55,203,131	47,814,448	432,205,172	-	**616,140,359**
Financial assets through statement of comprehensive income	12,362,167	-	-	-	-	-	-	**12,362,167**
Financial assets at amortised cost	-	-	980,000	-	10,202,455	-	-	**11,182,455**
Property and equipment	-	-	-	-	-	-	26,852,823	**26,852,823**
Projects under construction	-	-	-	3,614,468	-	-	-	**3,614,468**
Intangible assets	-	-	-	-	-	-	24,244	**24,244**
Deferred tax assets	-	-	-	-	1,066,727	-	-	**1,066,727**
Other assets	-	23,673,985	2,048,370	2,044,606	-	7,224,824	-	**34,991,785**
Total assets	**308,153,296**	**48,242,787**	**17,423,386**	**60,862,205**	**59,083,630**	**439,429,996**	**26,877,067**	**960,072,367**
Liabilities								
Deposits for banks, financial institutions and Palestine Monetary Authority	63,451,070	2,000,000	-	-	-	-	-	**65,451,070**
Customers' deposits	253,158,132	130,270,492	103,486,097	94,527,690	154,552,878	85,235	-	**736,080,524**
Cash margins	3,324,288	1,163,647	971,157	3,724,270	3,225,793	29,173,934	-	**41,583,089**
Borrowed funds	590,181	-	-	-	-	-	-	**590,181**
Other provisions	-	-	-	-	4,537,851	-	-	**4,537,851**
Tax provision	-	-	-	161,672	-	-	-	**161,672**
Other liabilities	-	8,504,406	133,563	507,258	-	13,455,464	-	**22,600,691**
Total liabilities	**320,523,671**	**141,938,545**	**104,590,817**	**98,920,890**	**162,316,522**	**42,714,633**	**-**	**871,005,078**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**89,067,289**	**89,067,289**
Total liabilities and shareholders' equity	**320,523,671**	**141,938,545**	**104,590,817**	**98,920,890**	**162,316,522**	**42,714,633**	**89,067,289**	**960,072,367**
Gap in financial statements	**(12,370,375)**	**(93,695,758)**	**(87,167,431)**	**(38,058,685)**	**(103,232,892)**	**396,715,363**	**(62,190,222)**	**-**
Cumulative gap in liquidity risk	**(12,370,375)**	**(106,066,133)**	**(193,233,564)**	**(231,292,249)**	**(334,525,141)**	**62,190,222**	**-**	**-**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

40-3 Market risk

Market risk is the risk that may have effect on the investments value and the financial assets of the Bank resulted from the changes in market prices (such as the change in interest rates, foreign currency exchange rates, and prices of stocks and products).

The Bank periodically applies the appropriate methodology to evaluate market risks and sets estimates for the probable economic losses based on a set of assumptions and changes in market conditions. These methodologies applied by the Bank to measure market risks include: Stress testing methods on a semi-annual basis.

Interest rate risk

Interest rate risk results from the potential change in interest rates, and consequently impacting the cash flows or the fair value of financial instruments. The Bank is exposed to interest rate risks as a result of the timing gaps of re-pricing for assets and liabilities. These gaps are periodically monitored by the Assets and Liabilities Committee (ALCO). Various methods are used, if required, to avoid any excess to acceptable interest rate gap limits.

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Interest re-pricing gap

December 31, 2017	**Re-pricing gap**							
	Up to one month	**From one month to 3 months**	**From 3 months to 6 months**	**From 6 months to one year**	**From one year to 3 years**	**More than 3 years**	**Non-interest bearing items**	**Total**
	USD	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**
Assets								
Cash and balances with Palestine Monetary Authority	-	-	-	-	-	-	257,491,000	**257,491,000**
Balances at banks and financial institutions	59,612,317	12,357,940	-	-	-	-	-	**71,970,257**
Financial assets at fair value through statement of income	-	-	-	-	-	-	103,260	**103,260**
Financial assets at fair value through comprehensive income	-	-	-	-	-	-	3,058,329	**3,058,329**
Financial assets at amortised cost	-	-	-	4,232,714	1,406,431	3,770,000	-	**9,409,145**
Direct credit facilities	37,909,453	18,154,222	29,122,993	69,972,454	46,655,418	456,703,423	-	**658,517,963**
Property and equipment	-	-	-	-	-	-	30,278,332	**30,278,332**
Projects under construction	-	-	-	-	-	-	3,067,092	**3,067,092**
Intangible assets	-	-	-	-	-	-	22,481	**22,481**
Deferred tax assets	-	-	-	-	-	1,066,727	-	**1,066,727**
Other assets	-	-	-	-	-	-	40,644,948	**40,644,948**
Total assets	**97,521,770**	**30,512,162**	**29,122,993**	**74,205,168**	**48,061,849**	**461,540,150**	**334,665,442**	**1,075,629,534**
Liabilities								
Banks and financial institutions deposits and Palestine Monetary Authority	59,114,855	23,781,300	-	-	-	-	-	**82,896,155**
Customers' deposits	276,119,432	152,947,459	137,017,686	162,819,501	57,065,968	-	-	**785,970,046**
Cash margins	4,483,460	1,912,658	3,068,285	7,372,024	4,915,433	47,627,020	-	**69,378,880**
Borrowed funds	-	-	-	-	-	-	381,688	**381,688**
Other provisions	-	-	-	-	-	-	5,163,104	**5,163,104**
Tax provision	-	-	-	-	-	-	2,051,998	**2,051,998**
Other liabilities	-	-	-	-	-	-	27,056,989	**27,056,989**
Total liabilities	**339,717,747**	**178,641,417**	**140,085,971**	**170,191,525**	**61,981,401**	**47,627,020**	**34,653,779**	**972,898,860**
Total shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**102,730,674**	**102,730,674**
Total liabilities and shareholders' equity	**339,717,747**	**178,641,417**	**140,085,971**	**170,191,525**	**61,981,401**	**47,627,020**	**137,384,453**	**1,075,629,534**
Gap in the financial statements	**(242,195,977)**	**(148,129,255)**	**(110,962,978)**	**(95,986,357)**	**(13,919,552)**	**413,913,130**	**197,280,989**	**-**
Cumulative gap in liquidity risk	**(242,195,977)**	**(390,325,232)**	**(501,288,210)**	**(597,274,567)**	**(611,194,119)**	**(197,280,989)**	**-**	**-**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

December 31, 2016	Re-pricing gap							
	Up to one month	From one month to 3 months	From 3 months to 6 months	From 6 months to one year	From one year to 3 years	More than 3 years	Non-interest bearing items	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Assets								
Cash and balances with Palestine Monetary Authority	-	-	-	-	-	-	196,087,817	**196,087,817**
Balances at banks and financial institutions	50,332,102	7,320,600	-	-	-	-	-	**57,652,702**
Financial assets at fair value through statement of income	96,820	-	-	-	-	-	-	**96,820**
Financial assets at fair value through comprehensive income	12,362,167	-	-	-	-	-	-	**12,362,167**
Financial assets at amortised cost		-	980,000	-	10,202,455	-	-	**11,182,455**
Direct credit facilities	49,274,390	17,248,202	14,395,016	55,203,131	47,814,448	432,205,172	-	**616,140,359**
Property and equipment	-	-	-	-	-	-	26,852,823	**26,852,823**
Projects under construction	-	-	-	-	-	-	3,614,468	**3,614,468**
Intangible assets	-	-	-	-	-	-	24,244	**24,244**
Deferred tax assets	-	-	-	-	-	1,066,727	-	**1,066,727**
Other assets	-	23,673,985	2,048,370	2,044,606	-	7,224,824	-	**34,991,785**
Total assets	**112,065,479**	**48,242,787**	**17,423,386**	**57,247,737**	**58,016,903**	**440,496,723**	**226,579,352**	**960,072,367**
Liabilities								
Deposits for banks, financial institutions and Palestine Monetary Authority	63,451,070	2,000,000	-	-	-	-	-	**65,451,070**
Customers' deposits	253,158,132	130,270,492	103,486,097	94,527,690	154,552,877	85,236	-	**736,080,524**
Cash margins	3,324,288	1,163,647	971,157	3,724,270	3,225,793	29,173,934	-	**41,583,089**
Borrowed funds	-	-	-	-	-	-	590,181	**590,181**
Other provisions	-	-	-	-	-	-	4,537,851	**4,537,851**
Tax provision	-	-	-	-	-	-	161,672	**161,672**
Other liabilities	-	8,504,406	133,563	507,258	-	13,455,464	-	**22,600,691**
Total liabilities	**319,933,490**	**141,938,545**	**104,590,817**	**98,759,218**	**157,778,670**	**42,714,634**	**5,289,704**	**871,005,078**
Total shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**89,067,289**	**89,067,289**
Total liabilities and shareholders' equity	**319,933,490**	**141,938,545**	**104,590,817**	**98,759,218**	**157,778,670**	**42,714,634**	**94,356,993**	**960,072,367**
Gap in the financial statements	**(207,868,011)**	**(93,695,758)**	**(87,167,431)**	**(41,511,481)**	**(99,761,767)**	**397,782,089**	**132,222,359**	**-**
Cumulative gap in liquidity risk	**(207,868,011)**	**(301,563,769)**	**(388,731,200)**	**(430,242,681)**	**(530,004,448)**	**(132,222,359)**	**-**	**-**

Notes to the financial statements
(All amounts are in US Dollars unless otherwise stated)

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate as a result of changes in foreign currency exchange rates. The US dollar is the base currency of the Bank. The Board of Directors sets limits on the financial position for each currency at the Bank. The foreign currency position is monitored on a daily basis. Hedging strategies are followed to ensure foreign currency positions are within the approved limits.

Equity price risk

Equity price risk results from the change in fair value of investments in equities. The Bank works to manage these risks by diversifying investments in various geographic regions and economic sectors. Most equity investments owned by the Bank are listed in the Palestine Exchange market.

The following table shows the unrealised profit or loss as a result of potential and possible changes in equity prices by 10%, with all other variables held constant:

	Change in Indicator	Impact on statement of income	Impact on equity
December 31, 2017			
Securities through the statement of comprehensive income	%10	-	305,833
Securities through the statement of income	%10	10,326	-
December 31, 2016			
Securities through the statement of comprehensive income	%10	-	1,236,217
Securities through the statement of income	%10	9,682	-

Note (41) Comparative figures

Comparative figures for the year ended December 31, 2016 have been reclassified to conform to current year presentation.