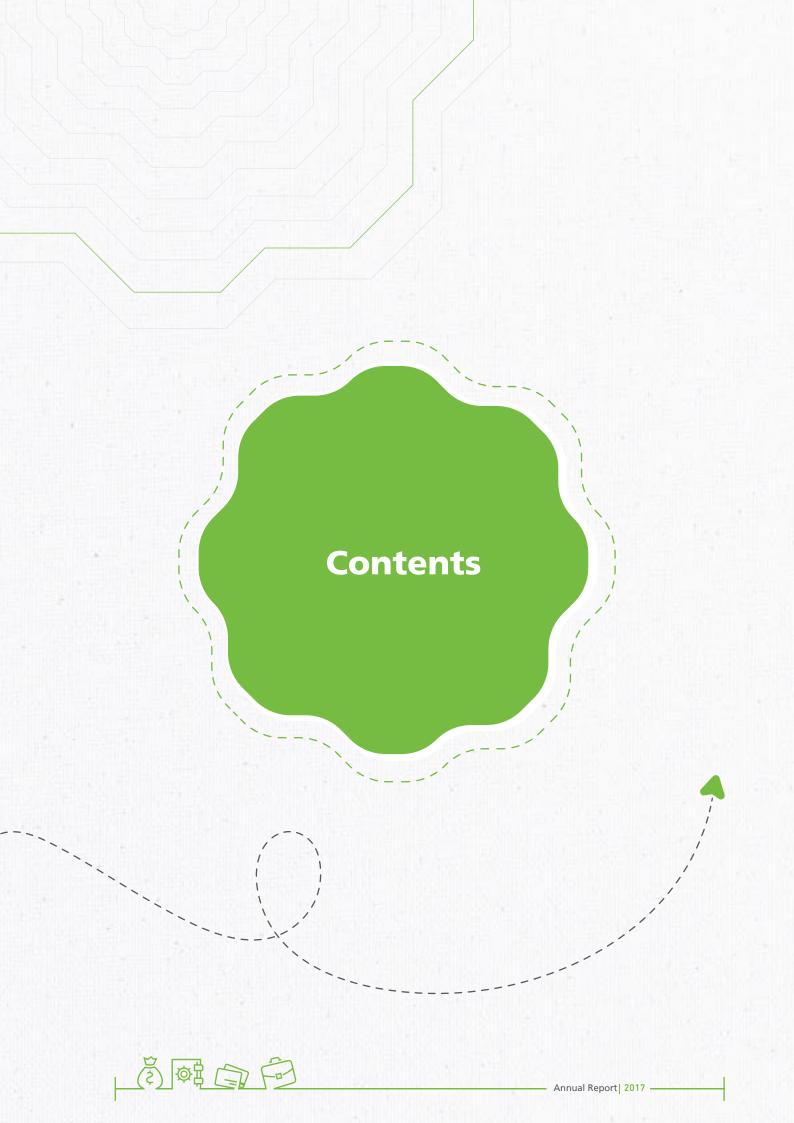




Annual Report 2017

The Nation's and Citizen's Bank



Overview	5
Mission, Vision, and Values	6
Business Results 2017	8
Chairman's Message	10
Members of the Board	12
General Manager's Message	20
Executive Management	22
Key Performance Indicators	28
Palestinian Banking Sector	36
Future Plans and Strategies	42
Banking Products and Services	46
Branching and Expansion Strategy	56
Human Capital	60
Training Center	66
Social Responsibility	68
Shareholder Relations	74
Governance	82
Independent Auditor's Report	98



الگذالات Quds Bank

Overview

Quds Bank

The Nation's and Citizen's Bank

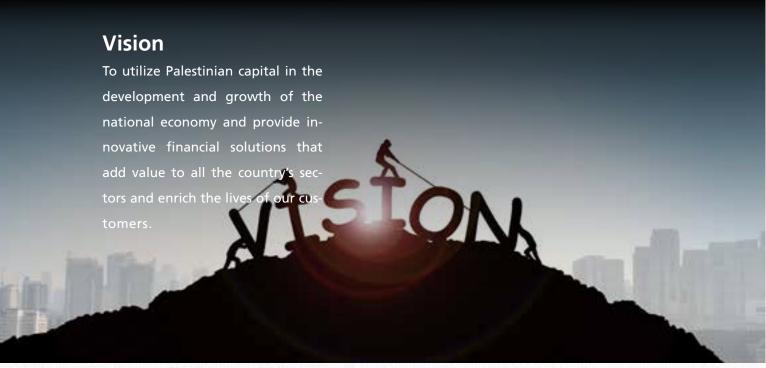
Since its establishment in 1995, Quds Bank has grown to become one of the most important banking institutions in Palestine, offering a wide range of retail and corporate banking solutions and contributing to developing the national economy.

Quds Bank was established as a limited shareholding company with a capital of USD20 million, which was gradually increased throughout the bank's years of operation to reach USD68.376 million. The bank's success and development are driven by its highly qualified team that offers a comprehensive package of banking products and services to individuals, corporations and small businesses while assuring the utilization of its strong equity position and extensive experience to perform an outstanding role in the banking sector.

Our slogan, the nation's and citizen's bank, encompasses a group of strategic policies and objectives laid out by the board of directors. The slogan emphasizes the name of the capital of an independent Palestine, and the bank's commitment to achieving a transformative step in all operational activities at a country-wide level. Quds Bank operates out of its headquarters in Ramallah, in addition to 37 branches distributed strategically throughout Palestine.

Quds Bank بنك القدس







Awards and International Recognition

Quds Bank is proud of its international recognition and the awards it has received due to its track record of credibility, commitment and strong work ethic. In recognition of its achievements, results and excellent performance indicators, Quds Bank was named as the Best Palestinian Bank in Saving Accounts by International Finance Magazine.

Additionally, The Banking Executive recognized Quds Bank as the Strongest Bank in Training and Development, while CPI Financial and its affiliate magazine, Banker Middle East, named Quds Bank the Best Palestinian Bank and one of the top 100 banks in the Middle East.

These awards confirm the bank's commitment to the banking sector and reinforce its exceptional position both at the local and regional level. They also acknowledge that Quds Bank is one the pillars of the Palestinian banking sector, and allow the bank to continue developing its services to provide an entire suite of banking products and services that meet the needs of its clients while contributing to the development of the Palestinian national economy.



Business Results

2017

Quds Bank witnessed numerous achievements in 2017, all of which were aligned with its future strategy that aims to continue to advance on it path of progression, with its efforts focused on developing its banking services and product offerings. Throughout 2017, the bank worked unceasingly on offering banking products and services that reinforce its competitive position, innovative practices and top-of-the-line banking financial services and solutions through its high capabilities and assets towards the bank's progressive development and advancement

Prosperity







Dear valued shareholders,

I am honored to welcome you all to this annual meeting, wishing you a happy New Year that will bring us and our beloved country all the best. I would also like to thank you on behalf of myself and the bank's board members for attending the General Assembly meeting (23), during which we will present the annual report of the bank's results, achievements, and financial results for the year ending on December 31, 2017. I am pleased to say that we are witnessing promising times, and the bank was able to achieve its targets, comply with policies and maintain its assets, through its solid strategy and its previous achievements. I would also like to take this opportunity to inform you of key developments at the bank.

Ladies and gentlemen, Quds Bank was able

to achieve remarkable financial results in 2017, with an increase in net profits before taxes reaching USD15.08 million compared to USD12.45 million in 2016. The bank's assets grew by 12.11% to reach USD1.08 billion, compared to USD960 million as of December 31, 2016. Additionally, total deposits increased by 10% by the end of 2017 compared to 2016, reflecting the growing trust by clients in the bank and its ability to maintain their savings and invest them appropriately.

Net direct credit facilities, another notable indicator, grew by 7% in 2017, to reach USD658.5 million compared to USD616.1 million in 2016. Likewise, credit facilities granted to non-governmental economic sectors reached USD153.7 million, indicating a growth rate of 33%.

Net shareholder equity increased to



USD102.7 million as at December 31, 2017, compared to USD89.1 million in 2016, indicating a growth of USD13.6 million or 15.26%, while total income grew in 2017 to reach USD53.7 million, compared to USD43.82 million in 2016, indicating an increase of USD9.9 million or 22.6%.

These positive results demonstrate the progressive growth achieved by the bank, as well as its strong financial position and its solid versatile asset base, which have contributed in the achievement of consistent and continuous growth results. Additionally, the results validate the bank's commitment to implementing the strategies approved by the board, which are aligned with the aspirations of our shareholders in terms of their share earnings and their investments.

Quds Bank continued its path of development in 2017, strengthening its capabilities in order to achieve its outstanding results. The bank launched campaigns promoting discounts and its varied offerings, seen as the most ambitious in the country, in order to continue providing exceptional services and products. Quds Bank also pursued cutting-edge methods in its retail and corporate financial services and banking products, most notably the installation of more advanced ATMs that allow cash deposits and withdrawals. The ATM network was also optimized to include underserved regions in order to achieve financial inclusion for all Palestinians. VIP clients saw enhanced services through the bank's Prime program, and 2017 also saw the launch of an updated version of our mobile application, Quds Bank.

In order to increase efficiency and the quality of service, the bank upgraded its electronic services platform, a transformative step that allows clients to perform banking transactions and remain up to date on their accounts and transactions through their mobile telephones from any place and at all times.

Inspired by the bank's commitment to providing the best banking service to our clients through our exceptional team, and due to our persistent efforts to reinforce the quality and efficiency of our team members, we provide our employees with the finest training programs and certifications that reinforce their knowledge and expertise in order for them to cater to the needs of clients. We offer workshops and seminars that are in accordance with the latest from the banking industry, banking services and the competitive market, which increases their expertise and helps them develop their professional career to reach the highest levels of job satisfaction.

Quds Bank continued to pursue the path of corporate social responsibility and has expanded its scope to ensure it maintains its leading position in the communities in which it operates in its efforts to achieve inclusive development. In this regard, in 2017 the bank contributed in supporting communities and participating in approximately 77 initiatives and projects in the fields of education, health, development and sports.

All these achievements are owed to the exceptional efforts of the management team and the employees over the past several years, who have implemented efficient procedures and made sound decisions in applying the bank's sound strategy. We still look forward to the future in order to continue achieving our objectives and having them positively reflect on the bank and its shareholders.

Ladies and gentlemen,

In conclusion, I would like to express my deep gratitude to our shareholders and their continued support, and our valued clients for their unwavering trust. I would also like to thank our board members for their exceptional efforts. I would also like to offer my appreciation to my fellow colleagues, the bank's employees in all the institution's departments for their thoughtful efforts and dedication in performing their duties, as well as for their sense of responsibility that has played a role in achieving the bank's success, continued advancement and prosperity. I would also like to acknowledge the Palestinian Monetary Authority for its efforts in reinforcing the strength of the Palestinian banking sector.

Chairman of the Board

Akram Abdullatif Ferab





Leadership and Persistence



Akram Abdullatif Jerab Master's degree in Business

Administration - Durham University, UK

- Chairman of Quds Bank
- Chairman of Arab Company for Science and Culture Qassioun University, Syria
- A major shareholder and a board member in Al Jazeera Bank, Sudan
- A major shareholder and a board member in Dar Al Dawa, Jordan
- A major shareholder and a board member in the Arab Hotels Company Millennium Hotel
- A major shareholder and a board member in the Quds Real Estate company
- Chairman and owner of Cometa Scientific Company, UK
- Chairman and owner of Cumberland Care Ltd, Nottingham, UK
- Founder and chairman of Al Karmel Company, Jordan
- A major shareholder in the Sunday Resort, Dead Sea, Jordan





Duraid Akram Jerab
Master Degree in Business/Durham
University,UK
Bachelor's degree in Business
Administration, Kent University,UK

- Deputy Chairman of Quds Bank
- General manager of the medical department of the Al Karmel Group, Jordan
- Fifteen years of working experience in trade and the marketing of medical equipment and pharmaceuticals
- Several investments throughout the Arab world
- Board member in Dar Al Dawa, Jordan (2007-2015)
- Board member in Nutridar, Jordan (2011-2014)



Dr. Ahmad Abdul Salam Majdalani Representative of Palestinian Pension Agency

- Board member in Quds Bank
- Chairman of Palestinian Pension Agency
- Member of the Board of Trustees of Al Istiqlal University, Palestine
- Previously served as the Palestinian minister of labor



Ruba Mohammad Masrouji Master's degree in Business Administration, Birzeit University

- Board member in Quds Bank
- Board member and CEO of United Securities Company
- Shareholder and board member of Masrouji Group
- Board member of Quds Holding Company
- Board member of the Popular Art Center
- Founder and shareholder of Tibag Publishing House
- Member in a number of leading Palestinian associations (Inash, Friends of Birzeit University, Consumer Protection, Jeel Al Amal)
- Member in the Professional Women Forum



Ahed Fayeq Bseiso Bachelor's degree in Architecture, **Cairo University**

- Board member of Quds Bank
- Board member of the Palestinian Development Fund
- Board member of the Palestinian Banking Corporation
- Treasurer of the Greek-Palestinian Economic Cooperation Council
- Member of the Board of Trustees in the Palestinian Investment Fund
- Member of the consultant board of AmidEast
- Representative of the Spanish Olive Palm organization, Palestine





Luai Bshara Qawwas

Bachelor's degree in Finance

Representative of the Palestinian

Investment Fund

- Board member of Quds Bank
- CEO of Sanad Construction Supplies Company



Waleed Najeeb Al Ahmad
Bachelor's degree in Electrical
Engineering

- Board member of Quds Bank
- Prominent businessman with extensive experience in the construction and engineering fields
- Vice chairman and general manager of Quds Real Estate Company, Palestine
- Board member of Arab Hotels Company, Palestine
- Board member of Al Quds Fund and Endowment



Muntaser Izzat Abu Dawwas
Bachelor's degree in Accounting and
Financial
Management, Buckingham University

- Board member of Quds Bank
- General manager of InvestBank, Jordan
- CPA, USA



Dr. Hamed Abdel Ghani JaberPhD in Electrical Engineering

- Board member of Quds Bank
- Chairman of Concord Construction Group, Jordan
- CEO of Infra Road Company, Qatar
- Board member of Al Jazeera Bank, Sudan
- Board member of Integrated Building Information Bank
- Former president of the Islamic States Contractors Union
- Former chairman of Arab Assurers Company
- Former board member of Jordanian Contractors Union
- Founder and member of the teaching committee of the Faculty of Engineering,
 University of Jordan (1975-1979)





Saleh Jaber Ihmaid
Bachelor's degree in Accounting

- Board member of Quds Bank
- Owner and chairman of a tea factory in Sri Lanka
- Owner of a tea exporting company in Sri Lanka
- Partner in Kamal Shipping and Clearing Company in Kuwait, Jordan and Palestine
- Board member of the Arab Union for Exporters and Logistics
- Member of the Board of Trustees in Qassioun University, Syria
- Board member of the Takafol Insurance company



Dr. Majed Awni Abu RamadanSenior Consultant in Medicine and Eye
Surgery
Attended the British Royal Eye Surgery
College

- Board member of Quds Bank
- Owner and chairman of a tea factory in Sri Lanka
- Owner of a tea exporting company in Sri Lanka
- Partner in Kamal Shipping and Clearing Company in Kuwait, Jordan and Palestine
- Board member of the Arab Union for Exporters and Logistics
- Member of the Board of Trustees in Qassioun University, Syria
- Board member of the Takafol Insurance company





Dear valued shareholders,

At the end of each year we take a look back on our past performance, uncovering the results of our efforts to continue achieving our strategy of growing returns for shareholders and meeting all the needs of our clients. We use these observations to maintain the leading position of our institution and move it forward on a more successful, prosperous and fruitful path, in alignment with a long-term comprehensive vision.

Ladies and gentlemen,

Due to the policies, strong foundation and strategies that are built on strong principles, Quds Bank was able to maintain the pace of growth that enables it to strengthen its performance. The bank's enhanced performance was reflected on all fields of its operations and was clearly evident in its financial indicators that saw notable growth of its total assets compared to 2016.

Quds Bank continued on its path of achievement through its progressive growth in performance accompanied by a series of developmental measures taken on several fronts. The bank's policies and continuous efforts were successful in enhancing the quality of its exceptional services and diversifying the package of offerings pre-

sented, all clearly evident as Quds Bank excelled in 2017 on multiple levels. The bank was able to implement its strategic plan in all aspects, which aimed to increase its competitive advantage and improve its performance to reach desired objectives. In this regard, Quds Bank categorized departments into three segments, and automated a number of administrative operations through the use of cutting-edge technologies and systems that had a positive impact and paved the bank's future path.

In parallel, the bank harnessed all efforts to design distinguished and quality programs that offer exceptional banking products and services, which were beneficial to our clients and were characterized by the highest levels of professionalism and modernity. These steps helped the bank take a transformative step in enhancing the level of quality of products and services, which places it in a unique position. We are proud of the bank's position as a leading financial institution in the Palestinian banking sector, recognition that was as a direct result of the united efforts of all its employees, whether administrative or executive, joined by the collective vision of preserving its position as a trusted partner to the largest of Palestinian corporations. We will continue to spare no efforts in enhancing our comprehensive banking commercial and investment services for individuals and corporations, a strategy that has always been and will remain the management's deliberate priority. We will also continue to expand our suite of services in order to meet and exceed the market's needs and achieve client satisfaction, whether retail or corporate, by offering a wide selection of competitive services and solutions.

To maintain Quds Bank's leading position in the local banking sector on the technological front, we will continue to provide and enhance our e-services platform to guarantee more efficient transactions and communications at all times. Our electronic services are designed for retail and corporate clients and witnessed high demand from all segments due to their efficiency, speed, and accuracy as well as their high levels of security.

The bank also continued to develop its organizational structure in order to advance and enhance the professional skills of its employees, incentivizing their professional capabilities in a manner that positively impacts their performance in order to allow them to provide exceptional services efficiently. Quds Bank, in 2017, expanded its internal and external training programs for employees in recognition of importance of human capital and its essential role as a mainstay in achieving remarkable results and driving the bank forward on its path of further success.

We look forward with confidence and ambition to another year of achievements and efforts that are aimed at enriching our remarkable banking experience. We always aim high, with a clear vision of the present and the future, constantly seeking to exceed expectations.

Ladies and gentlemen,

In conclusion, I would like to express my deepest gratitude to the chairman of Quds Bank and the members of the board, in addition to all our shareholders for their support and encouragement. My continuous gratitude also goes out to our valued clients for their loyalty and trust. I would also like to thank my fellow employees at Quds Bank for their dedication, loyalty and sincere efforts, which all played a major role in achieving our ambitions, and I look forward to another year of excellence. I would also like to take this opportunity to thank the Palestinian Monetary Authority with the deepest gratitude for its support of the Palestinian banking sector.

Salah Hidmi





Executive Management



Exceptional Performance



Salah Hidmi
General Manager
Bachelor's degree in Finance and
Banking, Al Ahliyya Amman University
Joined Quds Bank on September 7, 2016

Zaid Al Jallad
Deputy General Manager
Bachelor's degree in Finance
and Banking, Al Ahliyya Amman
University
Joined Quds Bank on July 15, 2012





Ahmed Anabtawi
Deputy General Manager of
Consumer Banking
Master's degree in Business
Administration, Birzeit University
Joined Quds Bank on July 10, 2016

Munther Odeh

Deputy General Manager of Credit Affairs

Master's degree in Administrative Sciences,

Accounting Major, The University of Jordan

Joined Quds Bank on January 27, 2013





Mohammad Salman
General Manager Assistant
Master's degree in Accounting, Jordanian
University
Joined Quds Bank on September 8, 2013

Suha Khader
Gaza Strip Executive Manager
Bachelor's degree in Mathematics,
Al-Quds Open University
Joined Quds Bank on July 21, 2013





Raed Najeeb Abdel Halim
Executive Manager of Banking
Operations
Master's degree in Business
Administration, Al Najah University
Joined Quds Bank on August 8, 2001

Eng. Alaa Titi
Executive Manager of Information
Technology Department
Degree in Computer Systems
Engineering, Al Quds University
Joined Quds Bank on March 14, 2010





Eng. Aysar AL Nubani
Executive Manager of
Administration and Engineering
Services
Degree in Electronic Engineering,
Damascus University
Joined Quds Bank on June 27, 2010

Mohammad Shawar

Executive Manager of Business Banking and
Financial Institutions

Master's Degree in Business Administration,
Birzeit University

Joined Quds Bank on February 1, 2017





Indicators

Growth and Sustainability

Quds Bank's financial indicators grew significantly in comparison with previous years. Not only did the bank maintain its competitive position among Palestinian financial institutions, it also achieved high growth rates in the various divisions of operation. Following is a summary of the bank's key financial indicators:

Financial Position Items

Total Assets

Total assets as of December 31, 2017 reached USD1.08 billion compared to USD960 million as of December 31, 2016 with a growth rate of 12.11% or USD116 million. The compound annual growth rate (CAGR) reached approximately 15.11% for the period between 2013 and 2017.

Total Assets - Million USD

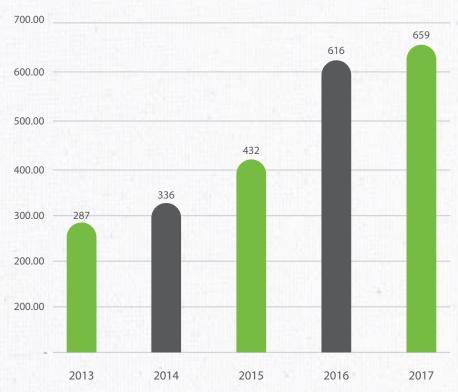


Amounts in million USD

Credit Facilities Portfolio

Net direct credit facilities amounted to USD659 million as of December 31, 2017, compared to USD616 million as of December 31, 2016, with a growth rate of 7% or USD 43 million. The compound annual growth rate (CAGR) for the period between 2013 and 2017 reached 18%.

Net Credit Facilities - Million USD

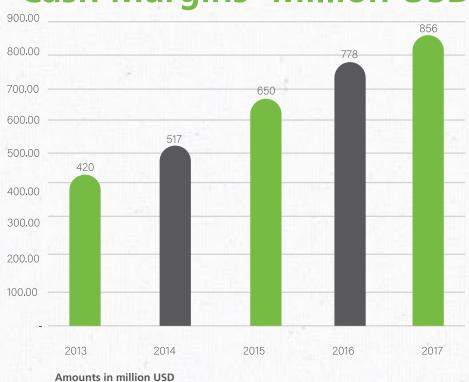


Amounts in million USD

Client Deposits and Cash Margins

Total client deposits and cash margins increased to USD856 million as of December 31, 2017, compared to USD778 million in December 31, 2016, a growth rate of 10% that is equivalent to USD78 million. The compound annual growth rate (CAGR) for the period between 2013 and 2017 amounted to approximately 15%.

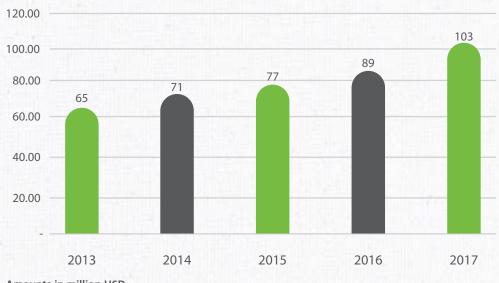
Client Deposits and Cash Margins- Million USD



Net Equity

Net equity reached USD103 million as of December 31, 2017, compared to USD89 million in 2016, with a growth rate of 15%, which is equal to USD14 million. The compound annual growth rate (CAGR) for the period between 2013 and 2017 reached 10%.

Net Equity - Million USD

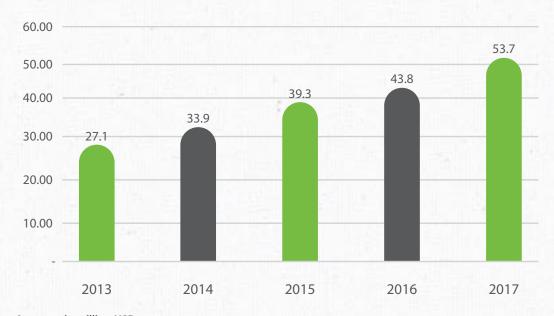


Income Statement Items

Gross Income

Gross income amounted to USD53.7 million as of December 31, 2017, compared to USD43.8 million in 2016, with a growth rate of 22.6% or USD9.9 million. The compound annual growth rate (CAGR) for the period between 2013 and 2017 reached 14%.

Gross Income - Million USD



Amounts in million USD

Net Profit after Taxes

Net profit after taxes amounted to USD11.2 million as of December 31, 2017, compared to USD10.5 million in 2016, a growth rate of 7% which equals USD710,000. The compound annual growth rate (CAGR) for the period between 2013 and 2017 reached 19%.

Net Profit After Taxes - Million USD



Key Financial Indicators

Quds Bank
Key Financial Indicators

Item	Historical Figures				Growth	Compound	
	2013	2014	2015	2016	2017	to last year	annual growth rate
Total assets	532.58	669,36	804.16	960.07	1,075.63	%12.11	96 15.11
Net credit facilities	287.35	336.17	432.40	616.14	658.52	966.88	%18.04
Financial assets	20.17	31.83	30.58	23.54	12 57	(%46.83)	(%9 67)
Total client deposits	420.46	516.98	650,25	778.25	855.73	%9.96	% 15.27
Net equity	64.99	70.55	76.95	89.07	102.73	%15.34	%9.59
Net interest and commissions	22.87	28.37	32.26	37.50	44 68	%19.15	9613.09
Gross incomet	27 12	33.87	39.33	43.82	53.68	%22.50	96 13.60
Total expenses	19.84	23.64	27.31	31.38	38.60	%23	%12.80
sel income after tax	4.74	7.23	8.02	10.47	11.18	%6.79	% 18.72
Return on assets	%0 94	%1.20	%1 09	%1.19	%1.10	(%7 49)	%3.26
Return on equity	%7.71	96 10.67	%10.88	%12.61	1611,66	(%7.57)	%8.63
Return on paid-up capital	%9.48	%14.46	%16.04	%17.15	%16.35	(%4.66)	9611.52
Capital adequacy ratio	%23.71	% 16 98	%15.31	5613 92	%13 02	(%6 46)	(%10.52)
Efficiency ratio	%73.16	%69.80	%69.54	%70.38	%70.61	%0.33	(%0.71)

Amounts in million USD





The Palestinian banking sector witnessed numerous achievements in 2017, despite the constant difficult circumstances taking place in the country as a result of the occupation's policies and strategies against the Palestinian economy, and especially against the banking sector. However, the Palestinian Monetary Authority continued to develop its regulatory procedures and issued a number of regulatory instructions in addition to various other achievements that reflected positively on the financial indicators of the Palestinian banking sector.

The financial statements of the Palestinian banking sector showed a decrease in growth ratios of the sector's assets to reach 11.5% compared to a growth ratio of 12.7% in 2016, reaching USD15,827 million, while the growth ratio of Quds Bank was 12.5%, equal to USD1.08 billion.

Client deposits increased by 13% in the Palestinian banking sector in 2017, compared to a growth ratio of 9.75% by the end of 2016, reaching USD11,973 million, while the growth in Quds Bank's client deposits increased by nearly 10.03% to reaching USD856 million.

The direct credit facilities portfolio also increased in 2017 by 17.44%, compared to a growth rate of 16.27% in 2016, reaching USD7,953 million, while the growth rate at Quds Bank was up by 7% to reach USD659 million.

In this regard, the structure of licensed banks witnessed changes in 2016, as by the end of 2017 there were 14 licensed banks, seven of which were local (three of them Islamic), and seven of which were foreign banks. Moreover, a merger took place between Jordan Commercial Bank and Palestine Bank.



Total Deposits - rounded to millions (USD)

Item	2013	2014	2015	2016	2017
Banking sector	8,306	8,935	9,655	10,596	11,973
Quds Bank	420	517	650	778	856

Net direct credit facilities

Item	2013	2014	2015	2016	2017
Banking sector	4,480	4,896	5,825	6,772	7,953
Quds Bank	287	336	432	616	659

Growth rates in deposits compared to the banking sector

Item	2013	2014	2015	2016	2017
Banking sector	10.97%	7.57%	8.05%	9.75%	13.00%
Quds Bank	18.87%	22.96%	25.77%	19.65%	10.03%

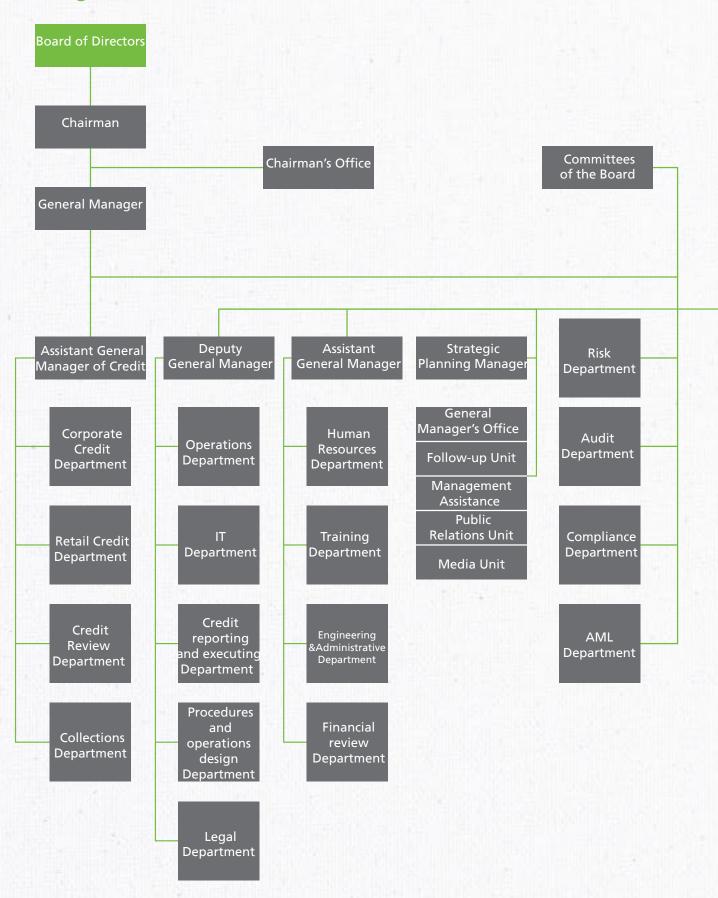
Growth rates in facilities compared to the banking sector

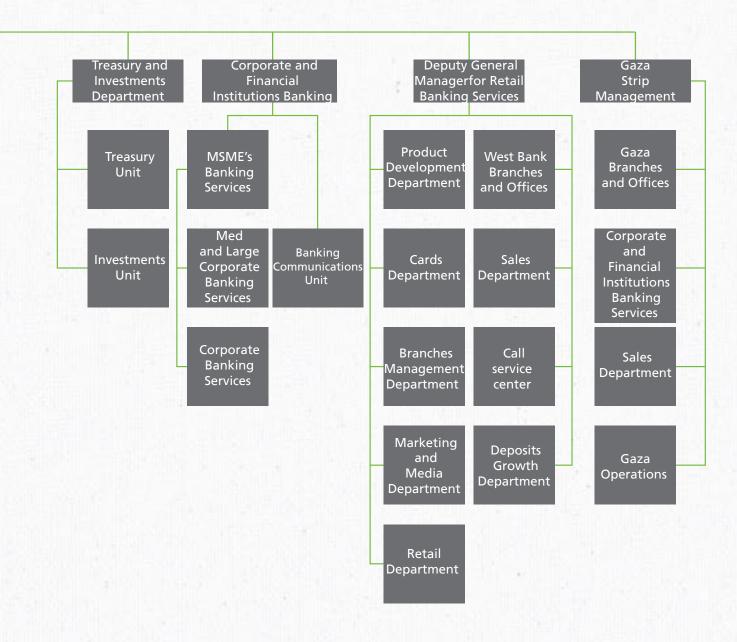
Item	2013	2014	2015	2016	2017
Banking sector	8.97%	9.28%	18.97%	16.27%	17.44%
Quds Bank	-1.88%	16.93%	28.69%	42.46%	6.98%

Market share of deposits and facilities

Item	2013	2014	2015	2016	2017
Banking sector/ Deposits	5.06%	5.79%	6.74%	7.34%	7.15%
Quds Bank/ Facilities	6.41%	6.86%	7.42%	9.10%	8.29%

Organizational Structure Year 2017









Basis of Our Development

Future Plans and Strategic Basis of Our Development

The Bank's Strategic Plan

Quds Bank took on a holistic approach in strategic planning, establishing the Planning Department by the end of 2016, which was responsible for laying out a strategic plan that includes monetary and non-monetary objectives for the three upcoming years. The Planning Department works continuously on implementing its strategic policies that are derived from its goals, mission and future outlook, based on scientific research and statistics, followed by a conclusion that determines carrying on or discontinuing projects.

The bank implemented its strategic plan in all facets of its work in order to increase its competitive advantage and optimize performance, in light of the economic, social and political developments in Palestine. The implementation steps included the following:

The bank purchased new banking systems to manage all operations in a systematic and responsible manner.

The bank began automating some administrative operations in line with the latest technologies and procedures, and will continually evolve to reach full automation.

The bank invested heavily in electronic portals, such as:

- 1- Acquiring advanced ATMs that offer deposits and withdrawals services.
- 2- Expanding the ATM network and optimizing distribution, especially in underserved rural areas, in order to reach financial inclusion.
- 3- Launching Quds Smart services (mobile banking application) and developing these services to gain exclusive and competitive advantages.

The bank is also studying new investment opportunities to develop its technological infrastructure at a country-wide level.

In line with its technological advancements, the bank is working on raising the public's awareness regarding electronic services for all segments of society, starting with its employees and clients until the use of all available services becomes engrained in the society's culture.

The bank also seeks to further diversify its provided products and services through the launch of new products designed based on studies and an innovative segmentation of the market.

1. The bank developed new MasterCard credit cards and added new benefits and features such as Secure Code, in addition to enhancing the benefits of its cashback services to reach 12% of total purchases and 27 monthly traveling trips, offered to the users of the credit card.



2. Several campaigns were launched for the users of Western Union during Ramadan and Eid Al Adha.

The Prime Clients Unit for retail and corporate clients was inaugurated at the beginning of 2017, offering distinctive banking services in a highly private, professional and proficient manner, in addition to many other advantages designed for select clients. Clients can also avail themselves of a dedicated relationship officer in each of the seven main branches in the West Bank and Gaza Strip, and plans are underway to have a relationship manager in each of the main branches.

The bank also worked on enhancing its performance at all levels and in all fields in order to secure sustainable operations, client loyalty and profit generation. In this context, the bank worked on the following:

- 1. Vigorous monitoring of the standards of service that were designed in accordance with the best practices in this sector. Quds Bank retained an independent research institution to evaluate the actual performance of customer services in branches, using the Mystery Shopping technique.
- 2. Constant monitoring of and response to client feedback on social media.
- 3. Following up on complaints and suggestions boxes found in all branches of Quds Bank.

The bank's training center offered approximately 182 seminars and courses for employees in order to minimize the gap between the actual and targeted capabilities of employees, and to develop their skills to aid them in performing their daily duties in an efficient manner.

The bank endeavored to incentivize employees by reinforcing their loyalty and increasing their satisfaction through events and programs, including:

- 1. Savings accounts dedicated for employees and their families that offer valuable monthly prizes.
- 2. An incentive scheme for branch employees based on a point system for each service sold within the bank, with cash rewarded in return. Beneficiaries of the plan were branch employees and the direct sales force.
- 3. Plans are underway to design a plan in cooperation with human resources committees for back-office employees.
- 4. A study on efficiency was prepared for a number of the bank's departments to measure the workflow, resolve issues and review suggestions, in order to increase employee productivity.
- 5. In 2017, the bank was able to achieve growth in all financial indicators, which is in line with the strategic plans of increasing its market share among Palestinian financial institutions. The bank will continue monitoring and evaluating its strategy over the next several years though specific programs, work plans, and mechanisms.

Driven by the bank's strategic future plan to expand and develop in line with developments in the banking sector and as per the highest standards of the industry, and in order to provide a comfortable and suitable working environment for both employees and clients, Quds Bank's board of directors has voted to break ground on a new headquarters building in Masyoun, Ramallah.

The bank's new headquarters, which are expected to be completed in three years, will offer a more spacious working environment in line with modern global standards and the bank's strategy. The new headquarters will include offices for the management of all departments, a modern new branch, in addition to a business development center, a VIP service center, training halls and multipurpose rooms.







In 2017, all the bank's divisions and departments directed their efforts on accomplishing one goal: maintaining the returns and achievements of the previous years in regard to the quality of banking services and products while offering exceptional customer service. Under the guidance of the bank's executive management team, departments were able to their goals.

Retail Services

In line with bank's strategic outlook, the Product Development Department released a product and service package that enhanced the services offered to clients, catering to their banking needs in an optimal manner. In the case of retail services, the department released several credit products and services including the following:

- Financing against real-estate collateral that enables clients to secure loans for the value
 of lands owned by them in order to settle personal debts, in return for mortgaging their
 real estate.
- Savings deposits the client can sign a letter undertaking him to make a monthly deposit in a savings account in exchange for a lower debit interest rate.
- Cash-to-cash personal loans against blocking cash collateral covering 100% of the requested loan in a cash collateral account.
- The management continued to develop retail loan products (personal loans, car loans, residential loans and purchases loans) and approved many corporations in the private sector for financing.
- A new direct sales unit was established for the bank's clients.
- In terms of deposits, management launched a savings campaign under the name "Yom Wara Yom Day after Day," which was one of the most sought-after programs in Palestine. The program allows clients to open saving accounts with \$300, or their equivalent in other currencies, in order to enter the draw for prizes from Quds Bank. Prizes included:



- One Renault Clio every day
- One Jeep Cherokee every month
- 36 fuel coupons every week

Quds Bank MasterCard Credit Cards

Quds Bank offers branded Silver and Titanium World MasterCard credit cards that feature the slogan "Your Path Partner." The cards were designed with the lifestyles of our clients in mind, offering them flexible card limits as well as many other exclusive benefits and high-quality services. Quds Bank MasterCard accepted worldwide and the optimal payment method, with numerous benefits including:

- MasterCard credit cards are offered with different limits and flexible repayment methods starting from 5% and up to 100% of purchase values, with a grace period of up to 45 days with no interest on purchases or cash withdrawal.
- Can be used for purchasing directly from points of sale or cash withdrawals from ATMs carrying the MasterCard sign worldwide or at bank branches inside and outside Palestine.
- The LoungeKey program allows clients carrying the World MasterCard access to more than 800 airport lounges globally. The LoungeKey 24/7 service offers an enjoyable experience with many other free benefits once the card is presented.
- The Priceless program offers numerous offers and discounts at restaurants, shopping malls and entertainment centers, in addition to travel and special offers and discounts through the following applications:
- 1.MasterCard for You
- 2.Buy 1 Get 1

In accordance with the bank's strategy of offering unique services, the new Titanium World credit card was released, as well as the launch of a 12% cashback program for purchases according to credit limits and the 27 Traveling Trips with Your Path Partner campaign, which was launched during the third quarter of 2017 in cooperation with the MasterCard Global Corporation. The campaign allowed cardholders the opportunity to win one of 27 prepaid trips for two by using their cards either locally or internationally. Additionally, and in line with our commitment to offer the highest levels of security to our clients, Quds Bank launched the MasterCard Secure Code service that was designed to provide additional protection for online shopping

In light of the bank's commitment to provide unique and advanced services that cater to the needs of clients, Quds Bank has formulated a strategy to progressively enhance and develop

its branded credit cards and continuously launch new products with additional benefits and advanced technology.

Electronic Services

The year 2017 witnessed many achievements in Quds Bank's e-services offerings, with the bank relies on to keep its clients up to date and connected at all times and from anywhere in an efficient and flexible manner. With that in mind, the Quds Smart mobile application and Qudsi Online internet banking services were launched, transformative steps and added value.



Quick Transfers (Western Union)

The bank recognizes the importance of developing its products and services, and consequently moved to expand its network of Western Union agents, making it the largest network in Palestine. The Western Union service is now offered through 64 locations (24 agents in 27 locations and 37 branches and offices) throughout the West Bank and Gaza Strip, in effort to cater the Palestinian people's need to send and receive money quickly and efficiently. The bank continued developing and enhancing its work procedures in accordance with Western Union best practices, and in line with the best global norms, compliance regulations and the implementation of protection systems and AML policies in transfer transactions.

Service Quality and Customer Care

The Service Quality and Customer Care Unit in Quds Bank was established in 2016 as part of the Retail Banking Services Department, with the goal of achieving excellence in the quality of services offered at all the bank's offices and branches in the West Bank and Gaza Strip. This unit has relied on universal measurements tools to evaluate the application of standards related to the employee performance and the working environment at branches and offices, in order to optimize the client experiences. These tools include customer satisfaction questionnaires, a Mystery Shopping program and quarterly evaluations. Moreover, the Service Quality and Customer Care Unit is responsible for resolving client complaints and feedback that are received via the various communication portals utilized by the bank, thus strengthening the relationship between Quds Bank and its clients.



The activities included:

- Marketing savings accounts through the campaign "Saving accounts prizes, day after day
 a car every day"
- Marketing MasterCard credit cards through the Cashback campaign for the branded MasterCard, the Mother's Day campaign and the "27 traveling trips with Quds Bank MasterCard"
- Marketing the Western Union quick transfer service through several campaigns, including:
- The Ramadan campaign that ran under the slogan "In the month of goodness, goodness prevails"
- Make your transfers in Eid and win during Eid Adha
- A gift when your make transfers during Christmas
- The department also launched marketing and advertising campaigns for self-services,
 ATM deposit services as well as a campaign advertising the bank's e-services platforms
 Qudsi Online and Quds Smart



Marketing Campaigns

Exceptional and unique promotion campaigns were launched by the Marketing Department, reinforcing active communication channels with the public in a manner that presents a positive image of the bank's services and activities via the various communication portals utilized, including the Quds Bank website and social media portals.

Call Service Center

Quds Bank's Call Service Center saw numerous improvements in 2017, and is considered one of the main portals of communication with clients, rating just as high in importance as any other branch used to sell and market the bank's products and services. It is also an important source of market data, an important tool to measure client satisfaction, and offers an opportunity to develop products and services. The call center provides technical support for electronic and card services, as well as significantly contributes in targeting different segments of clients for various objectives, including selling, marketing and updating data.

Corresponding Banks

The Financial Institutions Department is largely responsible for establishing relationships with local and foreign banks, monitoring credit limits for banks and financial institutions internally and externally by establishing and managing a network of banking relations with corresponding banks in order to determine credit limits that serve the bank's interest. It also provides various services to the bank's clients, especially those who have trading activities, by affording a smooth and efficient implementation of their banking transactions globally. The network of corresponding banks currently consists of the most important and biggest banks in Europe, USA, Asia and the Middle East.

Treasury

Quds Bank's Treasury Department performs an integral role in managing assets, ensuring higher returns, financial stability, financial solvency and mitigating operational risks. The Treasury Department was able to achieve excellent and consistent results, and boosted its performance and ability to invest, protected and served the bank's interests, provided clients with currency trading services. It was also able increase client returns and limit their exposure risks with a high degree of professionalism. The Treasury Department aims to maintain its role as a vehicle for increasing returns, maintain the bank's stability and continue to develop and enhance its performance and services by providing innovative products that cater to client needs and align with the latest international developments.





Corporate Services

Financial Institutions and Corporate Banking Services Department

Quds Bank offers a wide spectrum of banking solutions to the corporate sector, enabling institutions to support their projects, build capabilities and push business forward. Whether it is a recently established company or a successful business, Quds Bank is a partner that provides with continuous support to ensure a company's success. The Financial Institutions and Corporations Banking Services Department is strategically prioritized at Quds Bank and offers several services and branches.

1. Corporate Banking Services Department

Quds Bank strives to reinforce its relationship with its valued clients, while simultaneously attracting new one, offering credit facilities and other services that cater to all their business needs.

The department offers services to corporations and MSMEs through its service centers distributed throughout governorates of the West Bank and the Gaza Strip, including in Ramallah, Nablus, Tulkarem, Jenin, Salfit, Hebron, Beit Jala and the Gaza Strip. This is significant as MSMEs make up more than 95% of operating establishments licensed in Palestine, in addition to being the highest source of employment for Palestinians of all ages and segments. The department offers its services through relationship managers who are highly qualified and proficient in working with clients with corporations to meet their needs through the following:

- Opening accounts for corporations
- Issuing checkbooks
- Issuing various LGs and in favor of different local and foreign entities
- Executing internal and external transfers in different currencies
- Internal and external trade, for both importing and exporting purposes
- Selling and buying local and foreign currencies at preferential prices
- Granting credit facilities, including short-term (financing working capital) or long-term (fixed assets financing) facilities through the following products:
- -Working capital limits
- -Decreasing working capital (dedicated for tenders)
- -Long-term loans (fixed assets financing)
- -Short-term loans (financing purchases or sales or bank discounts)
- -Bank guarantees of all types
- -Letters of credit (deferred or on sight)

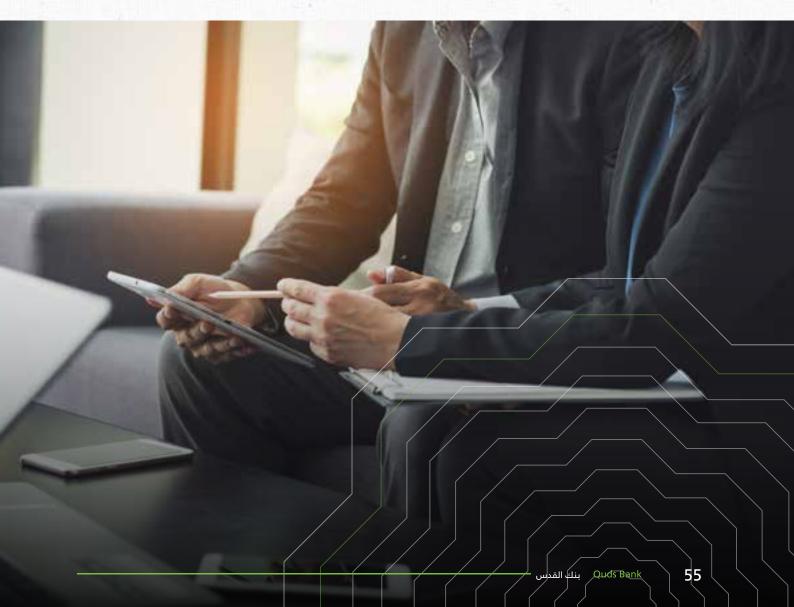


2. Corporate Deposits Growth Department

Through Corporate Deposits Growth Department, Quds Bank strives to attract and grow corporate deposits through a comprehensive set of banking products, including a wide selection of accounts as well as benefits and preferential services. In 2017, the department witnessed great challenges in regard to competitiveness in the Palestinian banking sector in terms of attracting deposits; however, the department was able to maintain its positive impact in achieving its desired targets and fulfilling the bank's needs of liquidity and investing them in loans for clients.

3. Financial Institutions Banking Services Department

The Financial Institutions Banking Services Department was established in 2017 and is responsible for establishing and managing relations with financial institutions and corresponding banks. Quds Bank acknowledges the significance of the department in establishing new and managing long-standing relations, and seeks to support it, in order to serve clients and cater to all their needs, whether in the country or outside of it, and offers FX currencies exchanges, financing transactions and the receipt of transfers.







Branching and Expansion Strategy

1	Headquarters Branch Ramallah	11	20	Silat Ad-Dhahr Office Silat Ad-Dhahr Main Street	8
2	Al-Masyoun Ramallah Branch Ramallah Rukab Main Street	15	21	Jericho Branch Jericho Ain Al Sultan Street	10
3	Al Bireh Branch Al-Bireh Tahounah Street	10	22	Bethlehem Branch Bethlehem Manger Street	10
4	Quds Street Office Ramallah Rajeen Circle	7	23	Beit Jala Branch Beith Jala Al Sahl	10
5	Plaza Mall Office Al-Bireh 'Al Balou	9	24	Hebron Branch Hebron Main Street	12
6	Birzeit Mall Office Birzeit	9	25	Ras Al Joura Hebron Beginning of Nimer Street	11
7	Salfit Branch Salfit Opposite of Trade Chamber	11	26	Ad Dhahirya Office Ad Dhahirya Al Atqiya Mosque Street	7
8	Biddya Office Biddya Main street	9	27	Tarqumiyah Office Tarqumiyah Tarqumiyah Checkpoint	6
9	Qabalan Office Qabalan Downtown	6	28	Al Eizariya Branch Quds Ras Al Kabsa	8
0	Jamma'in Office Jamma'in Main Street	8	29	Gaza Branch Gaza Al Sabra	15
1	Nablus Branch Nablus Trade Center	15	30	Al Rimal Branch Gaza Al Rimal	12
2	New Nablus Branch Nablus Safyan Street	13	31	Khan Younis Branch Khan Younis Salaheddin Street	10
3	Al-Najah Office Nablus Al Najah University	5	32	Al Nuseirat Branch Al Nuseirat Mecca Street, branching from Abu Oraif	8
4	Anabta Office Anabta Down Town	9	33	Rafah Branch Rafah Rafah	9
15	Tulkarem Branch Tulkarem Main street	11	34	Jabalia Branch Jabalia Jabalia	9
16	Attil Branch Attil Northern Region	10	35	Beit Lahia Office Beit Lahia Downtown	8
7	Qalqilya Branch Qalqilya Shaimaa Circle	10	36	Al Zahra Office Gaza Al Zahra	5
8	Jenin Branch Jenin Abu Bakr Street	14	37	Zaytoun Office Gaza Salaheddin Al Shajaia Street	8
19	Toubas Branch Toubas	12			



Quds Bank continued to implement its expansion strategy in order to cover and offer banking opportunities to the entire country through its several electronic platforms. The bank purchased new and highly advanced ATMs that allow both withdrawal and deposits, in addition to launching the Quds Smart mobile application in May 2017, which is a safe and effective application that allows clients to perform banking transactions at all times and in all places. The bank consistently works to remain up to date with the latest global developments in the realms of automation and electronic services by considering new investment opportunities to develop its technological infrastructure at a country-wide level. These investments include mobile applications, which are especially relevant with the prevalence of 3G technology in Palestine. The bank's branches and offices now number 37 branch and office through the West Bank and the Gaza Strip, in addition to eight Business Development Centers by the end of 2017. Moreover, the bank added five new ATM machines to its network, with the total now numbering 68. In 2018, there are plans to install another 22 ATMs, 10 of which will operate using the Braille system for the blind, in order to reach a wide segment of clients and implement the bank's financial inclusion strategy.





The Human Capital...Quds Bank's Most Valuable Asset

The Human Resources Department is an integral pillar of Quds Bank and one of its most important departments. It strives to go beyond the traditional concept of human resources management to take on a more comprehensive and holistic approach in managing and developing the human capital, reinforcing the role employees play in the bank's path towards success. Throughout 2017, a number of banking professional and fresh graduates that joined the team through a process of careful selection. Quds Bank is set apart among other financial institutions due to its highly qualified team, who reflect the extraordinary quality of services provided. Accordingly, the bank enjoys an excellent reputation and is able to recruit and select the best and most experienced professionals. Quds Bank is proud of its highly professional team members and boasts a female work force that makes up 29% of its total employees.

Quds Bank's management aims to reinforce the capabilities, skills and knowledge of all its employees, in addition to building their capabilities and developing their abilities. It also seeks to create an appropriate organizational environment in terms of quantity and quality that allows employees to reach their potential, encouraging them to offer their utmost efforts. Quds Bank believes that it must consistently offer exceptional services, and that its employees are its most valuable and influential resource in achieving its mission and vision. Within its human capital lies the true power in achieving its objectives, generating profits, and continuing on its path of growth, which is why the bank is committed to recruiting and training employees in all the needed capabilities required to overcome current and future challenges.

Employees in Headquarters, Branches and Offices

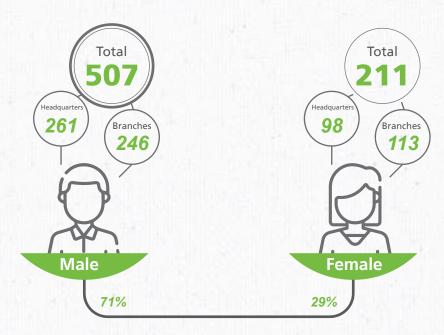
Numbers of employees



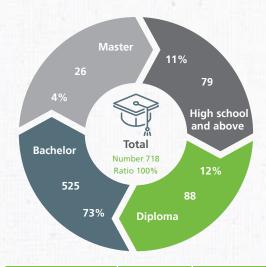
718

Total Employees

Employee Distribution According to Gender in Headquarters and Branches

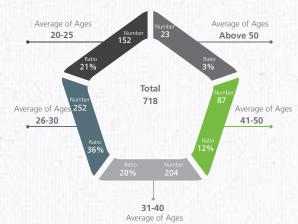


Employees Distribution According to Academic Qualification



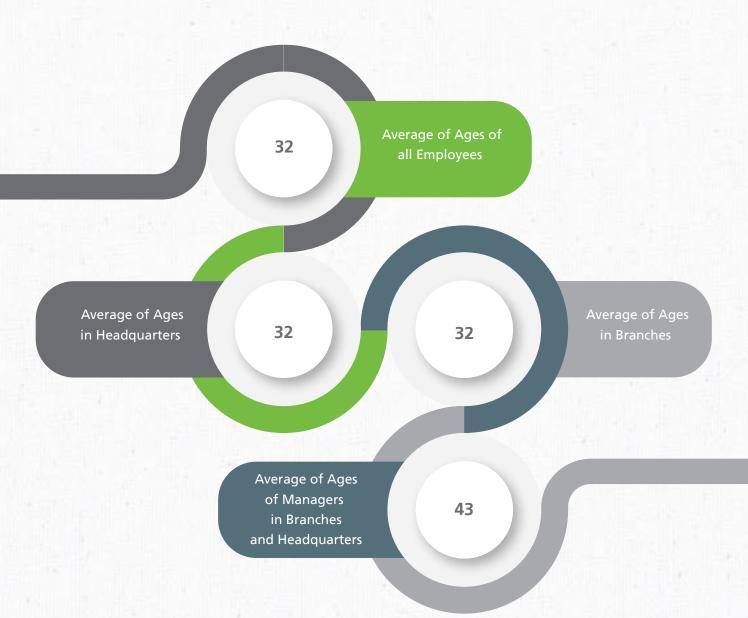
Academic Qualification	Number	Ratio
Master	26	4%
Bachelor	525	73%
Diploma	88	12%
High school and above	79	11%
Total	718	100%

Employees According to Age



Average of Ages	Number	Ratio
20-25	152	21%
26-30	252	36%
31-40	204	28%
41-50	87	12%
Above 50	23	3%
Total	7	18

Employees According to Age



Average of Ages of all Employees	32
Average of Ages in Branches	32
Average of Ages in Headquarters	32
Average of Ages of Managers in Branches and Headquarters	43

Training Center

In 2017 the Training Center focused its efforts on providing training programs and activities in cooperation with trainers, experts, and professionals from all over the world.

The various training programs and activities numbered 182 in 2017, which is equivalent to 4287 training hours with a total of 2365 participants.

Five hundred employees from the headquarters took part in 2786 hours of training through 106 programs, 1424 employees from the bank's branches had 1167 training hours through

50 training programs. In the Gaza Strip, 441 participants from the branches and offices had 335 training hours through 26 training programs. The total costs of these activities amounted to USD293,557.

These training programs were distributed among the Bank's different departments, with business operations taking the largest

Gara Offices g
and Branches
441

Administration
500

West sank
as and learnings
1424

share of the training budget, approximately 102 training programs and activities divided across 2452 training hours for 2038 participants, at a total cost of USD176,731. Support activities had access to 62 training programs and activities for 273 participants divided across 862 training hours at a total cost USD72,951, while control operations took part in 18 training programs and activities for 54 participants for 973 training hours at a total cost of USD43,874.















The Training Center coordinated programs internally, locally and internationally as follows:

A number of the bank's employees participated in training workshops, forums, conferences, and courses outside of Palestine in order for them to stay up to date with the latest international and global developments in the banking sector. Forty employees participated in 31 programs, workshops, forums, and conferences outside of Palestine, at a total cost of USD85,494.

Local programs numbered 81 at a total cost of USD69,204, while internal activities implemented within the Quds Bank Training Center numbered 70 at a total cost of USD138,860. Some of the bank's employees worked towards their professional diplomas, Arab certifications and international professional certifications related to the banking sector, such as: Certified Management Accountant certification

Banking Studies Diploma

Ethical Hacking Certification

ACI Dealing Certificate

Palestinian AML Accreditation Certificate PAMLA

Risk Management Professional (RMP) Certificate

Moreover, a number of employees participated in a Study Tour at a number of foreign banking and financial institutions.

An e-learning training program, held in cooperation with Salalem Company based in Jordan, was implemented through the Quds Bank Educational Academy electronic portal, which contains 25 study subjects specialized in banking operations such as securities trading, opening accounts conditions for normal individuals, accounting principles for banking operations, AML, anti-fraud policies, compliance policies, banking products and services for retail and branches structure, information security, and corporate banking products and services. This portal was utilized to train new employees with working experience of between one to 15 months, approximately 100 employees who make up 14% of the bank's total work force. Available material for employees numbered 14,432 "normal" training hours, which were fully utilized and the employees were granted 1804 certifications, enabling them to complete required courses successfully.

Moreover, 161 students of different Palestinian universities and colleges were trained in customer service at various branches and offices, as well as in managerial departments, and were accordingly issued related training certifications.

Quds Bank employees participated in 60 programs for Palestine Injaz as part of the bank's corporate social responsibility activities throughout the West Bank and the Gaza Strip.

Moreover, a large number of the bank's employees participated in a Career Day activity, which aimed to reinforce and strengthen relationships among employees, allow them to discuss their career paths, discover new talents and determine their training needs.





Stemming from Quds Bank's mission and its firm belief in corporate social responsibility, the bank was committed to communicate and interact with the different segments of the communities in which it operates. In 2017, the bank continued to contribute to charitable events and activities related to supporting the community in the fields of health, education, culture, sports and development, in addition to financing small and medium projects. The bank also continued funding and supporting humane causes and charitable initiatives, in line with its outlook and ambitions that aim to enhance all aspects of the community and contribute to its sustainable development.

Quds Bank always seeks to maintain its proactive and positive role in serving its community, and to create the spirit of cooperation and giving among the future generations. Quds Bank's total corporate social responsibility expenditure through donations and sponsorships amounted to USD1,155,754 during 2017, which supported and sponsored nearly 77 social activities.





Field	Amount of Contribution
Education	69,893
Development	124,286
Health	820,783
Sports	41,159
Culture and arts	26,818
Relief aids	34,102
Youth and innovation	17,610
Children	3,090
Women	8,070
People with special needs	9,943

Amount in USD



الكالكالي Quds Bank

أخبار بنك القدس (2017)

"بنك القدس" يرعى حفل عشاء "منتدى بيث المقدس" الخيري لدعم "مستشفى المطلع"



بنك القدس يختتم اجتماعه السنوي بمشاركة رئيس وأعضاء مجاس الإدارة



حير غاريك القنص يبدث ميل التخارج مع لرفة لبارة تابلس وجاعط النباح







بنك القدس يقدم نضعه لمشدوق

الطالب المحتاج في جامعة الخليل

الغاقية شراكة بين ،بلك القدس، و،الاتمالا تربط 37 فرعاً ومكتباً يشبكة الألياف الضو

ينك القدس يعر نوريخ صعم مجانيه ينسيه ١٠٠ ARE BARRE

یک فلیدس پدیلی مطابی آریاج ۱.۱ ملیون دولار کی فرنج اشات

القدس يقدم رعايله

الإفطارات الرمضائية والفعاليات أأجرون

دالأفقء تكرم بنك القدس لإنجاحه مشروع تمكين وتوظيف الشباب الرياديين



بنك القدس يقدم رعايته لمجموب بي

لأنسبوع الأولمبي المدرسي الثالث

ينك الشمر يطن عن الفائز الأول في نطلة جوم بوا يوم. سيارة كل يوم:

بت. الشمر يشم أيهزة ومعان مكتبية تجمعية وإن تتمية الخال

ينَكُ القدس يدمَم مدرسة المسين بن علي الثانوية في الخليل



73

Shareholders Relations

A Prosperous Partnership



Quds Bank works on creating positive and solid relationships built on the principle of transparency with all its shareholders. The bank strives to comminute with its shareholders through all possible portals of communication to maintain positive relationships, whether it's through the Shareholders Department or through the branches. It is also committed to delivering the annual report issued by the end of every year, and works in every way possible to encourage shareholders, especially minority shareholders, to attend the annual general assembly meeting and to participate in the voting process whether personally or through an agent in case of their absence. General assembly meetings also include the following:

- The attendance of the board's committee heads.
- The attendance of external auditor's representatives to answer any enquiries regarding the audit or the auditor's report.
- Palestinian Monetary Authority representatives are invited to attend meetings in order to be informed of the latest updates.
- The election of board members for those who are qualified and satisfy all conditions, which occurs at the end of the board's tenure during the annual general assembly meeting.
- The election of an external auditor and determining their fees or delegating the board to set the fees.
- Documenting all minutes of meetings and issuing reports detailing the progression of activities during the general assembly meeting, including voting results and any shareholder enquiries regarding their shares.
- The annual report is published on the bank's website, in addition to communicating with our shareholders around the clock through our social media channels.

Shareholders with ownership more than 5% as of 31/12/2017:

Name	End of 2017		End of 2016	
Akram Abdul Latif Jerab	15,163,337	22.18%	13,538,694	22.18%
Palestinian Pension Agency	6,837,600	10%	6,105,000	10%
Abdelrahim Jardaneh and Sons Company	5,470,080	8%	4,884,000	8%
Al Shurouq Real Estate and Financial Investments Company	3,527,777 5.16%		-	-

Amounts in USD



The following table shows shares of board members as of 31/12/2017 in comparison with 31/12/2016:

News	Nationality.	Davitian	Number of o	wned shares
Name	Nationality	Position	End of 2017	End of 2016
Akram Abdulatif Jerab	Jordanian	Chairman	15,163,337	13,538,694
Duraid Akram Jerab	Jordanian	Vice Chairman	2,715,330	2,424,402
Hamed Abdul Ghani Jaber	Jordanian	Member	1,628,000	1,831,500
Palestinian Pension Agency	Palestinian	Member	6,837,600	6,105,000
Waleed Najeeb Al Ahmad	Palestinian	Member	73,400	100,000
Muntaser Abu Dawwas	Jordanian	Member	37,281	33,287
Saleh Jaber Ahmad Ihmaid	Jordanian	Member	1,855,000	1,652,000
Ahed Faeq Bseiso	Palestinian	Member	101,196	90,354
Palestinian Investment Fund Company	Palestinian	Member	62,357	3,180,676
Ruba Masrouji Elmi	Palestinian	Member	80,000	50,000
Majed Awni Abu Ramadan	Palestinian	Member	30,000	-
Jumeira Real Estate and Trading investments Com- pany	Palestinian	Member	-	1,632,100

Amounts in USD

Shares of relatives of board as of 31/12/2017 compared to 31/12/2016:

Polativas	Dolationship	Nationality	Number of owned shares		
Relatives	Relationship	Nationality	end 2017	end 2016	
Duraid Akram Jerab	Son of Mr. Akram Jerab	Jordanian	2,715,330	2,424,402	
Muhannad Abdul Latif Jerab	Son of Mr. Akram Jerab	Jordanian	2,741,100	2,447,411	
Yazan Akram Abdul Latif Jerab	Son of Mr. Akram Jerab	Jordanian	2,571,933	2,296,369	
Zaid Akram Abdul Latif Jerab	Son of Mr. Akram Jerab	Jordanian	2,564,956	2,290,140	
Kamal Jaber Ahmad Ihmaid	Brother of Mr. Saleh Ihmaid	Palestinian	547,008	488,400	
Ramzi Saleh Jaber Ihmaid	Son of Mr. Saleh Ihmaid	Palestinian	65,000	54,945	
Rami Saleh Jaber Msallam	Son of Mr. Saleh Ihmaid	Palestinian	35,000	24,420	
Dina Saleh Jaber Msallam	Daughter of Mr. Saleh Ihmaid	Palestinian	15,000	12,210	
Rula Saleh Jaber Msallam	Daughter of Mr. Saleh Ihmaid	Palestinian	15,000	12,210	
Lina Saleh Jaber Msallam	Daughter of Mr. Saleh Ihmaid	Palestinian	15,000	12,210	
Jamila Mohammad Yousef Msallam	Wife of Mr. Saleh Ihmaid	Palestinian	15,000	12,210	
Lina Abdelraheem Rida Irshaid	Wife of Mr. Saleh Ihmaid	Palestinian	15,000	12,210	
Al Kamal for Shipping and Clearance Company	Mr. Saleh Ihmaid, Chairman	Palestinian	60,500	25,000	
Mohammad Mahmoud Yousef Masrouji	Mother of Mrs. Ruba Masrouji	Palestinian	314,002	280,359	
Dina Mohammad Dawoud Alami	Daughter of Mrs. Ruba Masrouji	Palestinian	1,367	1,221	
Nadine Mohammad Dawoud Alami	Daughter of Mrs. Ruba Masrouji	Palestinian	1,367	1,221	
Dara Mohammad Dawoud Alami	Daughter of Mrs. Ruba Masrouji	Palestinian	1,367	1,221	
Masrouji for General Trading Company	Mrs. Ruba Masrouji, Board member	Palestinian	241,651	73,726	
Azzam Najeeb Musatafa Al Ahmad	Brother of Mr. Waleed Al Ahmad	Palestinian	54,700	48,840	
Husni Najeeb Mustafa Al Ahmad	Brother of Mr. Waleed Al Ahmad	Palestinian	13,675	12,210	
Quds for Real Estate Investments Company	Mr. Waleed Al Ahmad, Vice Chairman, General Manager	Palestinian	500,000	515,000	

Amounts in USD

Executive management ownership as of 31/12/2017 compared to 31/12/2016:



Name	Position Nationality		Number of owned shares		
ivanie	Position	ivationality	End of 201	7 End of 2016	
Munther Mohammad Abdel Rahman Odeh	Assistant General Manager for Credit	Palestinian	18,400	2,500	
Suha Salah Shaaban Khader	Managing Director for Gaza Strip	Palestinian	39,200	35,000	

Amounts in USD

At Quds Bank, we seek to maintain a prosperous relationship with shareholders and investors by responding to their enquiries and through constant communication. Information is delivered to shareholders through the following methods:

- The annual report that is provided annually with the delivery of the general assembmeeting investigation through mail.
- The bank's branches.

Salaries and bonuses for the senior executive management team totaled USD1,251,764 during 2017, compared to USD1,168,961 in 2016.

Issues reverted to voting

None

Contracts with related companies

None

Financial statements

There were no discrepancies between the preliminary financial reports and the financial reports audited by the external auditor.

External auditor

PWC audited the bank's financial statements for 2017, and its fees amounted to USD40,600.

Trading activity during 2017

A summary of Quds Bank's shares trading activity

Item	2017	2016	Change	Change Percentage
Number of traded shares	15,459,301	7,426,995	8,032,306	108.15%
Value of traded shares	26,302,910	9,321,194	16,981,716	182.18%
Number of executed transactions	3,024	1,554	1,470	94.59%
Highest sharing price	2.13	1.37	0.76	55.47%
Closing price	2.12	1.20	0.92	76.67%

Amounts in USD

Board member expenses in 2017

Board members expenses in 2017					
Name	Atten- dance per- centage	Remunera- tion for year 2017	Attendance remuner- ation of board and committees meetings	Traveling expenses	Total (USD)
Akram Abdul Latif Jerab	100%	50,000	5,423	1,886	57,309
Duraid Abdul Latif Jerab	100%	25,000	9,269	7,245	41,514
Palestinian Retire- ment Authority represented by Dr. Ahmad Abdul Salam Majdalani	67%	16,750	8,693	750	26,193
Waleed Najeeb Al Ahmad	100%	25,000	8,846	1,500	35,346
Ahed Faeq Bseiso	100%	25,000	20,231	2,500	47,731
Jumeira for Trading and Investments Company (resigned since early 2017)	17%	-	423	-	423
Ruba Masrouji Al Alami	100%	25,000	6,423	750	32,173
Palestinian Investment Fund represented by Luai Bshara Qawwas	83%	20,750	11,116	1,750	33,616
Saleh Jaber Ihmaid	100%	25,000	5,423	750	31,173
Dr. Hamed Abdel Ghani Jaber	50%	12,500	5,693	1,494	19,686
Muntaser Izzat Abu Dawwas	67%	16,750	9,846	576	27,172
Dr. Majed Awni Abu Ramadan	33%	8,250	2,000	750	11,000
Total remunerations		250,000	93,386	19,950	363,336
Remuneration amount and reserved expenses within the budget in the Income Statement					413,336
Reserve surplus					

The board sets six meetings throughout the year and dispenses attendance remuneration in accordance with each member's attendance percentage and after the general assembly's approval. Suggested agenda for Quds Bank's 23rd general assembly meeting

- Reading the minutes of meeting of the previous general assembly which took place on May 8, 2017 and its statement.
- Delivering the board's report for the fiscal year ended December 31, 2017 and approving



it.

- Reading the auditor's report for the fiscal year ended December 31, 2017.
- Discussing financial statements and approving them for the year ended December 31, 2017.
- Approval of the new board members replacing two resigning board members.
- Holding members of the Board of Directors clear for the fiscal year ending December 31, 2017.
- Election of the external auditors for 2018 and delegating the auditor's fees setting to the board.
- Declaration of the board's decision for returns of year 2017 by 10% free shares and 10% cash returns.
- Any other matters that the general assembly suggests for the agenda of the meeting and
 is within the normal meeting of the general assembly, conditioned by the approval of a
 number of shareholders representing not less than 10% of the bank's shares.

Board's Declarations

- In line with the Palestinian Monetary Authority and the Capital Markets Authority regulations:
- The board declares that to its knowledge there were no material issues that could impact the sustainability of the bank's operations.
- The board declares its responsibility of preparing financial statements for year 2017, and that there is an active regulatory system in the bank.
- The board affirms the correctness, accuracy and completion of data and information stated in the annual report for year 2017.
- The bank is committed to the applicable governance regulations and to the forming of the bank's committees of the board.

Governance

Transparency and Commitment



1. Commitment to Corporate Governance

In line with the bank's strategic vision and stemming from the board's firm belief in the importance of the sound corporate governance policies and procedures, the regulations governing operations of the banking sector, the Palestinian Monetary Authority regulations and the international practices included within Basel's committee recommendations regarding corporate governance, in addition to the best practices guide for bank's governance in Palestine, and in order to achieve the bank's mission to provide the best banking products based on modern principles for all segments of the Palestinian society, the board is committed to implementing the corporate governance guide in accordance with the Palestinian banking working environment and the regulatory and legal framework governing the bank's operations and the regulations of the Capital Markets Authority and Palestine Exchange.

Furthermore, the bank reviews this guide and all its developments and updates from time to time to ensure it is up to date with the latest developments and regulations, and publishes it within the annual report, on the bank's website and provides it to the public upon request.

2.The Chairman's Role

In the scope of the chairman's position, the following are considered:

- Separation of the positions for the chairman and the general manager.
- Not having any family relations with the general manager less than third degree relations.
- Separation of responsibilities of the chairman and the general manager in accordance with the written approved regulations of the board, which shall be reviewed whenever needed.
- The chairman practices all duties and authorities granted to him in accordance with applicable laws Palestinian and the Palestinian Monetary Authority's regulations, and performs the duties and authorities delegated to them by the board.

The chairman performs the following main duties:

1. Overseeing the bank's overall operations, as they are responsible within the board for overseeing and monitoring the progress of bank's operations, seeing to the implementation of the policies set by the board to achieve the bank's goals and objectives and evaluating the bank's general performance in accordance with the strategies, plans, goals, policies, and approved budgets by the board.

2.The chairman ensures a secure highly efficient governing controls at the bank, and



established and maintains good constructive relationships built on the principle of corporate governance among board members and the executive management, and contributes to creating a corporate culture in the board through constructive criticism, encouraging the sharing of opinions among board members during meetings, and ensuring the deliverance of sufficient appropriate information in a timely manner to all shareholders and board members.

3. Responsibilities of the board

- The board is responsible for all duties related to the management of the bank, the soundness of its financial position, approving periodic financial statements audited by the external auditor and giving a recommendation to the general assembly to approve an external auditor for the bank. It is also responsible for fulfilling the Palestinian Monetary Authority requirements and serving the benefits of shareholders, depositors, creditors, employees and other related parties, ensuring that the bank's management is performing its duties cautiously and responsibly within the scope of applicable rules and regulations and the bank's internal policies.
- Setting the general policy for the bank including strategies, targets and work procedures, and periodically developing them and ensuring the commitment of the executive management to them.
- The bank's board is responsible for approving the organizational structure and job
 descriptions at all levels, in addition to approving policies and work plans for the bank
 including risk policy and procedures, in addition to ensuring a measurement tool for
 risks and setting required limits. Moreover, it is responsible for the credit, investment,
 recruitment, performance evaluation and internal control policies.
- The board elects the members of the executive management, experts and consultants in accordance with the recruitment policy approved by the board. It also determines their salaries, remunerations, and evaluations every year, in addition to the succession plan that ensures the availability of qualified replacements to manage the bank's operations.
- The bank's board is responsible for supervising and overseeing the bank's activities in accordance with the bank's internal applicable rules, regulations, decisions and policies, in line with sound corporate governance principles and requesting needed reports from the management in a timely manner.
- The board develops the general framework for the management that includes a suitable organizational structure that clarifies structure of authority, responsibility and the levels of managements, in addition to complete corporate governance, internal control,

- risk management, compliance, AML systems, ethical behaviors, treasury systems and standards, and rules and regulations that defer fraud and falsifications.
- The members of the board perform their duties in the interest of the bank in a careful, loyal manner and ensure the implementation of methods guaranteeing the compliance with all rules, laws and regulations. Board members avoid activities that may expose them to conflict of interest or may appear as a conflict of interest and are committed to provide the required time and effort to duly perform their duties for the bank.
- Through the Remunerations and Corporate Governance Committee, the board is evaluated at least once annually.
- The board evaluates the general manager once annually.
- The board evaluates departments of risk, compliance, internal audit, and AML.

4. Board's Working Mechanism

- Period meetings are held in accordance with the applicable rules and regulations at least once every two months, and the main subjects in the agenda are clarified to ensure covering all topics.
- The bank provides the board with sufficient information prior to the meeting to enable them make the right decisions. Drafts of the minutes of each meeting that are signed by all members of the board entailing their conclusions are distributed within seven days after the meeting. A copy of each MOM is sent to the Palestinian Monetary Authority within a month of the meeting's date.
- The board is responsible of determining the duties and responsibilities of the board secretary in a written and official manner, and is selected or resigned by a board decision, taking into consideration the needed experience and qualifications to perform set duties due to their important role in documenting meetings and the decisions taken by the board and the board committees.

5. Committees of the Board

 The board is the definitive bearer of responsibility for the bank's operations and affairs. To increase the efficiency of the board's performance and aid it in the sound management of the bank, committees are formed to aid it in performing its duties in a highly transparent efficient manner. These committees report to the board, and their duties, responsibilities, authorities, and terms are determined by a written decision from the board in accordance with the applicable law and regulations.



- Members of the board's committees are selected in a transparent and official manner.
 The names of committee members and a brief of their responsibilities and duties is stated in the annual report. Each committee has the right to contract the executive management directly through the chairman and the general manager.
- The board has four main committees which are: the executive, audit, risk and compliance, and the corporate governance and remunerations committee. The committees' responsibilities are determined by the board in accordance with the applicable laws and regulations; furthermore, other specialized committees can be formed by the board members whenever needed in order to handle certain information at the time, and some committees can be merged if deemed appropriate.

a. The Executive Committee

Four of the board members were elected to the executive committee to ensure the executive management's adherence with the credit and investment policies, and the given authorizes by the board. All members are qualified with the needed expertise, skills and knowledge. The committee activities are supervised by the board to which the committee reports and gives its recommendations. The committee holds periodic meetings that are attended by the general manager or their deputy, and the minutes of meetings are prepared in a suitable manner. The committee performs its responsibilities and duties according to the Palestinian Monetary Authority's regulations, best practices and the Basel banking supervisory committee. The committee has the right to invite whoever they deem appropriate and is headed by the chairman. Members are Duraid Jerab, Eng. Waleed Al Ahmad, Saleh Jaber Ihmaid and Ruba Masrouji.

The main duties of the committee are as follows:

- Approving credit and investment transactions that exceed the authorities of the executive management.
- Setting credit and investment policies, conditions for granting facilities, collateral, facilities limits and the authority limits for the executive committees in accordance with the Palestinian Monetary Authority rules and regulations, which are revised and updated systematically and in line with the economic conditions, banking policies, and changes of the bank's conditions.
- Ensuring executive management's adherence to the credit policy and the authorities approved by the board.
- Studying outstanding defaulted loans and laying out needed work plans to decrease

- them and ensure that there are sufficient reserves against them in accordance with the Palestinian Monetary Authority regulations in addition to giving recommendations related to writing off these debts.
- Conducting periodic reports regarding the conditions of the credit portfolio in terms of its size, developments, classified facilities, provisions reserved to face any losses, the collections departments efforts, the bank's investment portfolio, and any changes regarding these investments.

b.Audit Committee

Three of the non-executive board members were elected for the audit committee. All committee members are qualified with practical expertise and academic certifications in accounting and financial management. The committee operates under the supervision of the board, to which it reports and gives recommendations. The committee holds periodic meetings attended by the audit manager, and MOM are prepared in an appropriate manner. The committee performs its responsibilities and duties according to the Palestinian Monetary Authority's regulations, best practices, and the Basel banking supervisory committee. The committee has the right to invite whoever they deem appropriate. It is headed by Dr. Ahmad Majdalani, and the members are Ahed Bseiso and Muntaser Dawwas.

The main duties of the committee are as follows:

- Overseeing the activities of the internal and external auditors, and monitoring the comprehensiveness of their operations, integrity, and accuracy of financial information provided to the board, shareholders, and other users.
- Ensuring sufficient and efficient internal audit procedures and ensuring the bank's adherence to law, procedures and other regulations issued by the Palestinian Monetary Authority, in addition to the rules issued by the board and other applicable regulations in Palestine.
- Reviewing financial statements and other financial information prior to being reviewed by the board, to ensure the soundness in accordance with the applicable accounting principles, the Palestinian Monetary Authority requirements and all rules for adequate reserves.
- Providing the required independence for the Internal Audit Department so it can perform its duties. It also approves the election of the manager of the Audit Department or terminates his services if they see fit and is additionally responsible for the annual evaluation of the audit manager. The committee also sets clear mechanisms to hold the



- department accountable for performing their duties and responsibilities, and approving the authorities and responsibilities of the audit department.
- Reviewing financial reports prior to being reviewed by the board, and giving
 recommendations related to them including reports regarding any changes in
 applicable accounting principles or any changes in the bank's accounts due to the audit
 or the auditor's suggestions, in addition to the accuracy of the accounting and control
 procedures, their soundness and the extent of adherence.
- Giving recommendations to the board regarding the nomination, recruitment, termination or remunerations for external auditor services, and electing them for the general assembly meeting after ensuring they fulfil the conditions and requirements set by the Palestinian Monetary Authority and the applicable laws and regulations.
- Setting the disclosure and transparency standards and reporting them to the board for approval.
- Coordinating with the risk management committee to guarantee a clear demonstration of the bank's position and performance.
- Reviewing any matters presented by the board or any matter the committee sees necessary for examination and giving a recommendation.

c.Risk and Compliance Committee

Three members of the board were elected for the risk and compliance committee. All committee members are qualified with the necessary experience, skills and knowledge. The committee operates under the supervision of the board, to which it reports and gives recommendations. The committee holds period meetings attended by the general manager or his deputy, and MOM are prepared in a proper manner. The committee performs its responsibilities and duties according to the Palestinian Monetary Authority's regulations, best practices and the Basel banking supervisory committee. The committee has the right to invite whoever they deem appropriate. It is headed by Munstaser Dawwas, and the members are Ahed Bseiso and Luai Qawwas.

The main duties of the committee are as follows:

- Reviewing the risk management policies and strategies, for all types of risk that bank
 may face such as credit, market, operational, liquidity, credit concentrations, and interest
 rate and other risks. The policies are procedures are then reported to the board for
 approval.
- Determining the methods and mechanisms for risk mitigation in line with the regulatory

- requirements in this regard, in an effort to limit the impact of these risks on the sound and solid position of the bank.
- The executive management is responsible for the implementation of the policies, strategies and methods mentioned above under the supervision of the risk and compliance committee.
- Receiving suggestions from the executive management related to the Risk Department structure and its development, to be reviewed and amended prior to reporting them to the board for approval.
- The risk and compliance committee is responsible for staying up to date with the rapidlychanging and complicated developments occurring in the bank's Risk Department, and for reporting this periodically to the board.
- Obtaining all information regarding an issue under its supervision.
- Reviewing the Audit Department's reports and ensuring the department's adherence with the work procedures guide that is to be integrative of all aspects of operations in according to the related monetary authority, in order to optimize compliance with the laws, instructions, procedures and best practices.

d.Corporate Governance Committee

Three non-executive members of the board were elected to coordinate and implement governance policy. All committee members are capable of reviewing and understanding financial statements and are capable of coordinating and connecting the management with the related duties for the governance and audit committees. Members are gualified with the required legal and banking expertise. Meetings are held semi-annually and are headed by Luai Qawwas, and members are Hamed Jaber and Ahed Bseiso.

The main duties of the committee are as follows:

- Monitoring all related developments and updates.
- An annual review of the guide and ensuring it is distributed at the largest scale possible.
- Ensuring that executive management performs its duties in regard with the appropriate control of the bank's operations, and all duties as stated by the control measures and internal control regulations of the Palestinian Monetary Authority.

e.Remunerations and Rewards Committee

Three non-executive members of the board were elected for the risk and compliance committee. All committee members are qualified with the necessary experience, skills and



knowledge to make unbiased independent decisions. The committee operates under the supervision of the board, to which it reports and gives recommendations. The committee holds period meetings attended by the general manager or his deputy, and MOM are prepared in a proper manner. It is headed by Luai Qawwas, and members are Hamed Jaber and Ahed Bseiso.

The main duties of the committee are as follows:

- Preparing standards to be approved by the board that entail the conditions and qualifications seen necessary for board members in terms of skills and expertise and any other factors seen appropriate.
- Preparing the board's report for shareholders to elect or reelect board members including the following:

Membership term, personal details, professional qualifications, details about the candidate's membership in other bank or corporation boards, details of other positions assumed by the candidate, details of relationships and relatives of the candidate and the bank from one side and the candidate and other members on the other side.

- Preparing a statement that they fulfilled requirements to be considered an independent member when elected.
- Presenting the board with recommendations regarding changes seen necessary for a number of the board members of any of the board's committees.
- Determining qualified members and recommending to the board regarding any candidate for a membership in any committee with a vacancy.
- Overseeing the human resources policies operation in a general sense.
- Examining the eligibility of all candidates elected for membership of the board and any other candidates the board suggests.
- Recommending to the board regarding changes they see necessary for the management structure or job descriptions for senior executives.
- Setting an appropriate substitution plan for the chairman and members of the board and the senior executives and their replacements in cases of emergency or when there are vacancies.
- Evaluating the performance of the board, all board committees and all board members at least once annually.
- Preparing the remunerations and rewards policy and reporting it to the board for approval and overseeing its implementation.
- Conducting periodic reviews for the remunerations policy or whenever the board

recommends and giving recommendations to the board regarding any changes or updates.

- Conducting periodic reviews regarding the efficiency and sufficiency of the remunerations policy to ensure achieving set objectives.
- Ensuring the alignment of remuneration releasing periods and the actualization of income generation.
- Giving recommendations to the board regarding the level and the components of remunerations and compensations for the chairman, board members, and main executives of the bank.
- Ensuring that the remuneration and incentives policy takes into account all types of risks to which the bank is exposed when determining remunerations.
- Ensuring the alignment of the remunerations and incentives policy with the Monetary Authority and internal guidelines of the bank.

6.The Conditions and System of Internal Monitoring and Control

- The internal control and monitoring system was built based on the general framework of internal control system, the instructions of the Palestinian Monetary Authority and the related applicable regulations.
- The internal control and monitoring systems are reviewed by the internal and external auditors at least once annually.
- The bank issues a statement within the annual report regarding the adequacy of internal control systems for the financial statements.
- The board undertakes its responsibilities based on the general framework of internal control system in order to ensure the efficiency and adequacy of operations, approval of the financial statements and adhering to the applicable laws and regulations.
- Providing procedures that guarantee deliverance of information to the decision-makers in a timely manner including the emergency plan.
- The independency of audit, compliance and risk management departments.

1.Internal Audit

The bank recognizes the importance of an effective Audit Department for its role in reinforcing internal control systems and for its supporting role in comprehensive banking monitoring as the first line of defense and the general framework for the Risk Department in relation to the bank's different activities.



The objectives and duties of the internal audit department are as follows:

- Creating a conduct code for the internal audit to be approved by the board.
- Setting the internal audit procedures.
- Examination and evaluation of proper and effective internal controls and the mechanism through which duties are performed for all departments and units of the bank.
- Preparing an annual report regarding the adequacy of internal control and monitoring systems to limit risks to which the bank is exposed.
- Designing an annual audit plan approved by the review and audit committee.
- The internal audit department reports to the review and audit committee.

2.Compliance Department

The compliance department was established as an independent department to reinforce the commitment and adherence of the bank to the Basel committee requirements. It is responsible for overseeing compliance with the issues policies, laws and regulations of different regulatory authorities in order to achieve sound banking practices. For the Compliance Department, all laws, policies and instructions applicable to the bank have been collected and used in raising awareness and informing all employees with the concept of compliance through various workshops and training courses. The bank also is committed to guaranteeing the department's independence and providing the needed trained and qualified professionals.

The general framework of the compliance department is as follows:

- Conducting compliance guidelines, reviewing it and updating it whenever necessary.
- Preparing an effective methodology to guarantee the bank's compliance with all applicable laws and regulations, in addition to other related guidelines and evidences.
- Periodically reporting to the board's risk and compliance committee regarding its results and compliance monitoring activities.
- Evaluation and monitoring of the bank's compliance to corporate governance.
- Monitoring the bank's compliance to FATCA.

Quds Bank acknowledges and confirms the importance of AML, anti-terror and anti-fraudulent activities through a policy that aims to train all the bank's employees to identify methods of money laundering and terrorism financing and means of combatting these activities.

3.AML and Anti-terror Financing Department

Quds Bank aims to optimize its standards related to AML and anti-terror financing activities in all aspects by complying with all laws, regulations, instructions, orders, behavioral principles and standards, and sound banking practices issued by the local and international regulatory authorities. In line with the international developments and best practices in the field of AML and regulatory requirements, the bank implemented the following:

Established an AML and Anti-terror Financing Department and hired qualified employees.

Adopted two systems that reinforce monitoring and control of accounts, detailed as follows: An automated system that examines all data of financial transactions to ensure they are not

listed within international listing of sanctioned countries such as UN and OFAC listings.

An automated system specialized in AML and anti-terror financing activities that examines and monitors all financial transactions executed in client accounts.

The bank's efforts to implement these procedures to ensure that the funds from susceptible sources are not made through Quds Bank will have a positive impact on the bank's local and international image by avoiding any constraints on its financial and banking transactions

4.Risk Management Department

The bank prioritizes Basel committee's requirements and the instructions of the Palestinian Monetary Authority as a framework of reinforcing and strengthening the bank's capabilities to enhance its control environment and face any type of risks. Due to the unstable political and security conditions in Palestine, the bank's management took on practical measures to implement these regulations, including the establishment of specialized departments in managing different types of risks (credit, operational, market, operational risks and others), providing them with qualified personnel, investing in advanced systems and equipment, in addition to constructing alternative sites to resume operations in cases of emergency.

It also has constructed plans to manage those risks and disasters based on sound principles such as the CARE system that manages operational risks and created a risk profile file for all branches of the bank, in addition to building a database of operational errors.

In this context, the bank was able to reinforce parameters of credit risk management by separating the roles and responsibilities of corporate, SME, and retail credit risk departments. It also supported credit control and collections departments in addition to updated and developing risk management policies and procedures to maintain a sound credit portfolio. The bank established a risk management and compliance committee at an executive level that is responsible for the review and evaluation of all different risk departments and their activities, and periodically reports to the board's risk and compliance committee.



The risk department operates within the following framework:

a. Periodical reports to the executive committee of risk and compliance while daily activities are reported to the general manager.

b.The risk management department is responsible for the following:

- Formulating risk policies addressing all types of risks, to be approved by the board.
- Analyzing all types of risks, including credit, market, liquidity and operational risks.
- Developing measurement and control methodologies for each type of risk.
- Giving recommendations to the executive risks and compliance committee regarding limits of risks, approvals and reporting and documenting exceptional cases excluded from the risk management policy.
- Providing the board and senior executive management with information regarding risk measures and risk profile and the board regularly reviews quantitative and qualitative statistics of risks.
- The approval of methods that support risk management such as:
- 1. Self-assessment of risks and placing risk indicators.
- 2. Preparing a historical database of losses, determining their sources and categorizing them according to type of risk.
- 3. Availing necessary equipment and automated systems for the bank's risk management.
- c. The bank's committees, such as the credit, assets and liabilities management, treasury, and operational risks committees, aid the risk management department in performing its duties within the approved limits of authorities for these committees.
- d.Providing necessary information regarding risks to which the bank is exposed, for publishing and disclosure purposes.

7.External Audit

The external audit is another front of control for the integrity of the financial statements issued by the bank's accounting and information systems, especially in regard of expressing a fair and honest opinion of the financial statements and actualizing them within a certain period. When selecting the external auditor, it is taken into consideration that they must be approved by the Palestinian Monetary Authority, and that they are not granted any direct or indirect facilities by the bank. The board assures that the auditor has regular rotations and its involvement with other institutions.

The duties and responsibilities of the external auditor:

- 1. Auditing financial statements and accounting records of the bank in compliance with the international financial reporting standards (IFRS) and the international accounting standards (IAS).
- 2.Adhere to the minimum requirements of financial statements disclosure standards issued by the Palestinian Monetary Authority.
- 3. Full confidentiality under the professional codes of conduct.
- 4. Providing the audit and review committee with a copy of its report.
- 5. Attending general assembly meetings to answer any shareholder enquiries.
- 6. Providing the Palestinian Monetary Authority with a copy of the annual report within two months of the end of the financial year, which includes the following:
- •Any violations of the issued laws and regulations including the internal bank's instructions.
- •Its opinion regarding the adequacy of controls and internal monitoring systems and the adequacy of reserves against potential risks.
- •The fair presentation of financials provided to it during the audit process.

8. Charter of Work Ethics

The bank adopted the charter of work ethics approved by the board and has undertaken the compliance of all the bank's employees at all levels and board members. The guide demonstrates consequences of violating any of its clauses and states the principles, values and ethics of employees in four characteristics that are integrity, compliance, transparency and loyalty to the bank.

9. Relationships with Shareholders

- The bank builds and maintains positive relationships with all shareholders. In this regard, the bank continually works through all means possible on encouraging shareholders, especially minority shareholders, to attend the annual meeting of the general assembly, encouraging them to participate in the voting process whether personally or through a representative in case of their absence.
- Shareholders are provided with a copy of the annual report sent to their mail addresses, in addition to an invitation to the general assembly meetings, agendas and all information and marketing materials intended for shareholders generally.
- Representatives of the external auditors attend the annual general assembly meeting to answer any enquiries regarding the audit process or the auditor's report.



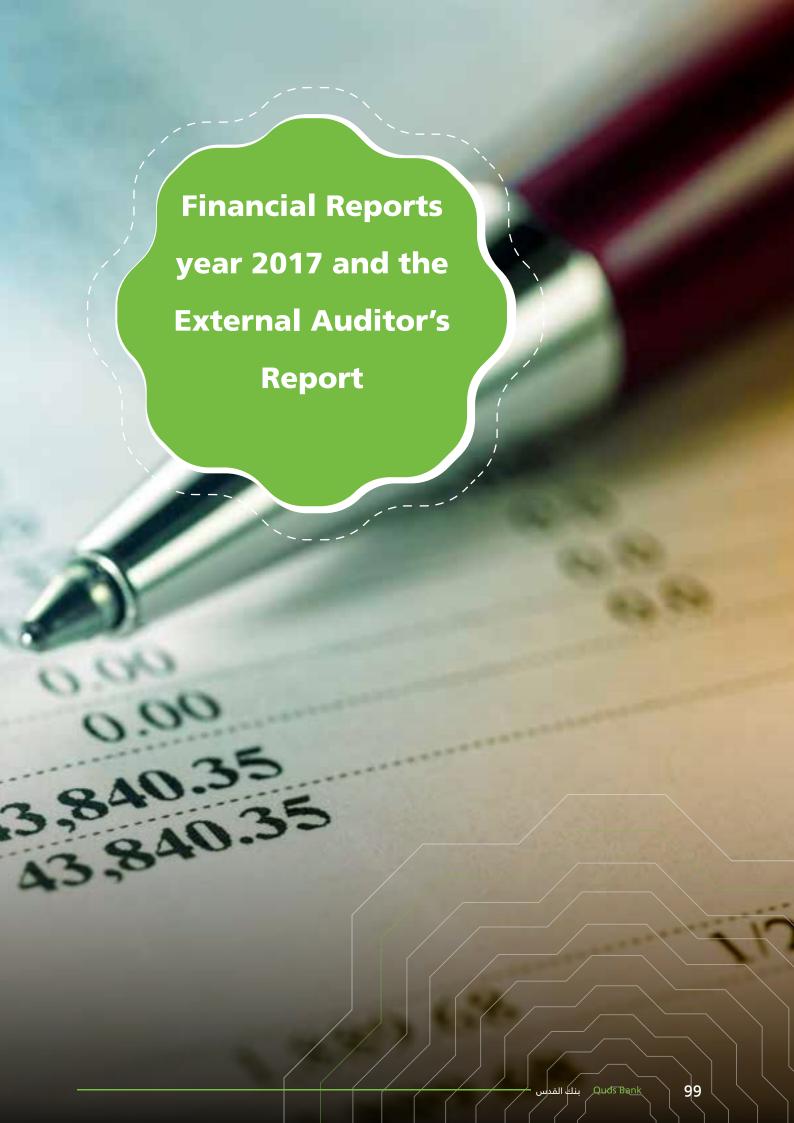
- Representatives of the Palestinian Monetary Authority are invited to attend the meeting in order to be informed of work operations.
- At the annual general assembly meetings, elections take places for board members who
 are qualified and fulfill conditions by the end of their terms.
- The external auditor is elected, their fees are determined or delegated to the board to be determined.
- Documentation of all minutes of meetings and reports regarding work operations take place during the annual general assembly meeting, including election results and questions asked by shareholders regarding their shares.

10.Disclosure and Transparency

The bank's corporate governance structure entails principles of integrity, objectivity, sincerity and trust in the decisions taken by concerned entities of the bank and transparency, disclosure and openness with the community.

In terms of transparency, disclosures and openness, which are three of the most important factors in the sound corporate governance of Quds Bank, as the bank is concerned with the general disclosure of all its trusted information in a timely manner to help the users of this information their accurate evaluation of the bank's financial position, its achievements, activities and risks. The bank is committed to periodically providing complete information about its activities to all related parties such as the Palestinian Monetary Authority, shareholders, depositors and the general public, with a special focus on matters of significant impact to the bank.





Quds Bank (Public Limited Company)

Ramallah, Palestine
Financial Statements and the External Auditor's Report
December 31, 2017

Independent Auditor's Report	100
Financial Position Statement	104
Income Statement	105
Comprehensive Income Statement	106
Changes in Owner Equity Statement	107
Cash Flow Statement	108
Notes on Financial Statements	109

QUDS BANK PUBLIC SHAREHOLDING COMPANY, Ltd.

- Annual Report | 2017 —

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

AND INDEPENDENT AUDITOR'S REPORT

(Translated from the Original Arabic Version)

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD. Financial statements for the year ended December 31, 2017

- Table of Contents -

	PAGE
Independent auditor's report	2-5
Statement of financial position	6
Statement of income	7
Statement of comprehensive income	8_
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 50

- بنك القدس Quds Bank 103



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 eash 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
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PricewaterhouseCoopers "Palestine", Amaar Tower, Level 7, Al-Irsal, Ramallah, Palestine T: +970 (02) 242 0230, F: +970 (02) 242 0231, P.O Box 1317 (Ramallah), www.pwc.com/middle-east





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.

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Provision for impairment of direct credit facilities

(3.8) and note (3.22) "Use of estimates", the management determines the provision of credit facilities is reasonable: 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.

How we responded to the key audit matters

As described in the accounting policies (3.3) and The following procedures were followed to assess whether management's estimation of provision for impairment of direct

- 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 annual 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

Hagem Sababa

License number 115/2003

Ramallah, Palestine March 18, 2018

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD.

Financial statements for the year ended December 31, 2017

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	(0)	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
Total naumities and equity		1,0/5,029,554	900,072,307

- 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



QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD. Financial statements for the year ended December 31, 2017

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	"T" = T 1-1
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.

Financial statements for the year ended December 31, 2017

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.

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD.

Financial statements for the year ended December 31, 2017

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

			Reserves	rves			
	Paid-in		General	Cyclical		Retained	
	capital	Statutory	banking risks	fluctuations	Fair value	earnings	Total
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.

Financial statements for the year ended December 31, 2017

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	(11,10)		2,417,231
facilities	(7)	3,853,804	2,369,572
Provision for end of service indemnity	(18)	1,580,570	968,645
Provision for lawsuits Unrealised gains from revaluation of financial	(18)	38,530	-
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)	40.000.500	- 110 402 (12
Customers' deposits Cash margins	(15)	49,889,522 27,795,791	119,403,613 11,250,528
Other liabilities	(16) (20)	4,456,672	12,436,623
Net cash flows generated from (used in)	(20)	1,100,072	12,130,023
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		11 707 771	
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	(10)	(3,733,273)	(7,55 1,1 10)
equipment		225,034	210,844
Net cash flows generated from investing		0.040.020	1 220 510
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	(2.5)	121 120 400	172 707 404
the year Cash and cash equivalents at the end of the	(35)	121,139,499	173,596,484
year	(35)	173,877,257	121,139,499
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The accompanying notes from (1) to (41) form an integral part of these financial statements and shall be read together.

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Financial statements for the year ended December 31, 2017

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).

Financial statements for the year ended December 31, 2017

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.

Impact of IFRS 9 adoption:

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:



Financial statements for the year ended December 31, 2017

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.

Financial statements for the year ended December 31, 2017

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).

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.

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.

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.



Financial statements for the year ended December 31, 2017

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.

Financial statements for the year ended December 31, 2017

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.

118 (2) 極盟

Financial statements for the year ended December 31, 2017

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.

Financial statements for the year ended December 31, 2017

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 nonperforming 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.



Financial statements for the year ended December 31, 2017

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.

Financial statements for the year ended December 31, 2017

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

T/	detail	
Item	detail	C _

	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
18,395,604	7,569,271
34,443,174	32,603,673
19,131,479	17,479,758
53,574,653	50,083,431
71,970,257	57,652,702
	34,443,174 19,131,479 53,574,653

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.



Financial statements for the year ended December 31, 2017

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.

Financial statements for the year ended December 31, 2017

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

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD. Financial statements for the year ended December 31, 2017

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	22.014.070	144 277 792
Palestinian National Authority Other public sector non-financial institutions	33,014,970	144,377,783 20,599
Total public sector	33,014,970	144,398,382
Total public sector	33,014,770	144,570,502
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 minoral sector		
Industry and mineral sector Industry	46,455,704	28,056,049
industry	40,433,704	20,030,047
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
<u>Transport</u>	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		
	1= 010 (10	40.450.404
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
	000,100,000	020,077,001

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD. Financial statements for the year ended December 31, 2017

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:

	Granted amount	Outstanding balance	Bank's carrying percentage	Non-performing debts
Direct facilities Direct facilities	2,048,447 1,515,851	1,202,416 1,101,328	30% 15% - 35%	160,173
	3,564,298	2,303,744		160,173
	Granted amount	Outstanding balance	Bank's carrying percentage	Non-performing debts
Direct facilities Direct facilities	5,929,715 1,853,638	3,096,842 1,399,911	30% 15% - 35%	350,801
	7,783,353	4,496,753		350,801
Note (8) Financial assets at fa	ir value thro	ugh statement of co	mprehensive income	
Item details -			2017	2016
Quoted shares in Palestine Exc Unquoted financial assets (loca			2,661,829 396,500	12,090,667 271,500
enquoted infanetar assets (roca			3,058,329	12,362,167
Movement of fair value reserve	e is as follows:		2017	2016
Balance at beginning of the y Unrealised gains Gains from sale of financial ass		omnrehensive	1,734,184 2,482,923	153,909 1,644,134
income Balance at end of the year	sets through ex	——————————————————————————————————————	(6,999,481) (2,782,374)	(63,859) 1,734,184
Note (9) Financial assets at ar	nortised cost			
Item details - December 31, 2017		Governmental bonds	Financial bonds quoted in financial markets	Total
Financial assets at amortised co		5,639,145	3,770,000	3,770,000 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 co		5,639,145 5,639,145	2,980,000 2,563,310 5,543,310	2,980,000 8,202,455 11,182,455



Financial statements for the year ended December 31, 2017

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 Additions	10,632,276 2,460,503	4,059,034	3,885,329 375,700	8,982,641 2,126,834	679,045 398,789	14,808,925 920,825	43,047,250 6,282,651
Transfers Disposals			- (66,890)	<u>-</u> (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 Disposals			(8 003)	(2,324,326) (57.862)	(320,817)	2,094,908	(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		369 035	1 651 135	6 378 580	737 737	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	1,564,941	•
Disposals	Carolina III		(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

Financial statements for the year ended December 31, 2017

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (11) Intangible assets

Item details -

Item details -	2017	2016
Dalama of hasing in a fifth annual	24.244	26,007
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		300 7
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)

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Financial statements for the year ended December 31, 2017

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (14) Banks and financial institutions deposits

-			
Item	detai	l c	

	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.

Financial statements for the year ended December 31, 2017

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 Provision for lawsuits	4,435,084 102,767	1,580,570 38.530	(952,550) (41,297)	5,063,104 100,000
1 TOVISION TOT TAWSUITS	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 Provision for lawsuits	4,106,457 102,767 4,209,224	968,645 	(640,018) 	4,435,084 102,767 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
Less: 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.

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Financial statements for the year ended December 31, 2017

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 Regulatory	11.78%	8.01%	86,182,956	13.60%	7.58%	72,793,796
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.

Financial statements for the year ended December 31, 2017

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
<u>Others</u>		
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

Financial statements for the year ended December 31, 2017

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Note (26) Net commissions income

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Item	details -

	2017	2016
Commission income		- 3 - 7
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.

Financial statements for the year ended December 31, 2017

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.

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.

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^{**} 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.

Financial statements for the year ended December 31, 2017

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.

		Companies and				
	Individuals	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

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

Financial statements for the year ended December 31, 2017

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

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD.

Financial statements for the year ended December 31, 2017

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	- 1496			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

Financial statements for the year ended December 31, 2017

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	= 7	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			All Land
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			10 pm
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

Financial statements for the year ended December 31, 2017

Notes to the financial statements

(All amounts are in US Dollars unless otherwise stated)

Related parties' facilities:

Activity of the state of the st	% 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		<u> </u>
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
<u>Less:</u>		
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

Financial statements for the year ended December 31, 2017

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:

	20	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:



Financial statements for the year ended December 31, 2017

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	<u> </u>		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			19.00	
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	1111		96,820
	96,820			96,820
			251 500	
	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.

Financial statements for the year ended December 31, 2017

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.



QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD. Financial statements for the year ended December 31, 2017

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 Ioans	Large	Small and medium	Government and public sector	Tofal
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
				Jen J		
		Real estate	Large	medium	and public	
	Individuals	loans	companies	companies	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	491,521		3,906,103	/3/,185		5,140,815
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

Financial statements for the year ended December 31, 2017

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 Acceptable risk	13,412,400 2,018,945	8,591,283	32,213,765 69,582,575	45,626,165 80,192,803
Watch list Non-performing:	164,207		886,847	1,051,054
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	v	52,055,652	62,925,554

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.

40.618

41,503

110,330

28,209

82,121

40-2 Operational risk

Watch list

Doubtful

Of which: Cash margins

Property

Quoted shares

Total

Non-performing: Substandard

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.

73,150

400,614

14,518,239

8,545,219

5,533,020

440,000

- 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).

144

2,471,618

415,252

3,327,639

82,309,535

25,079,090

49,396,027

7,834,418

2,471,618

529,020

3,769,756

96,938,104

33,652,518

55,011,168

8,274,418

Financial statements for the year ended December 31, 2017

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:

QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD. Financial statements for the year ended December 31, 2017

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

	I'n to one	More than	More than 3	More than 6	More than	More than		
<u>December 31, 2017</u>	month USD	to 3 months USD	6 months USD	one year USD	to 3 years	3 years USD	No maturity USD	Total USD
Assets Cash and balances with Palestine								
Monetary Authority Balances at banks and financial	257,491,000				i i			257,491,000
institutions	59,612,317	12,357,940						71,970,257
Financial assets at fair value through statement of income Direct credit facilities	37 909 453	- 18 154 222	29 122 993	- 69 972 454	- 46 655 418	- 456 703 423	103,260	103,260 658,517,963
Financial assets through statement	,,,,,,,	111, 21, 21		1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1, 1	21, 22, 21			and training
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	•		•	1			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			•		1		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	'	

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QUDS BANK - PUBLIC SHAREHOLDING COMPANY, LTD.

Financial statements for the year ended December 31, 2017

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

Total USD	196,087,817	57,652,702	96,820 616,140,359	12,362,167 11,182,455 26.852,823	3,614,468 24,244	1,066,727 34,991,785	960,072,367	65,451,070 736,080,524 41,583,089 590,181 4,537,851 161,672 22,600,691 871,005,078	960,072,367
No maturity USD				26.852.823	24,244		26,877,067	89,067,289	89,067,289 (62,190,222)
More than 3 years USD		•	432,205,172			7,224,824	439,429,996	85,235 29,173,934 - 13,455,464 42,714,633	42,714,633 396,715,363 62,190,222
More than one year up to 3 years			47,814,448	10,202,455	1 1	1,066,727	59,083,630	154,552,878 3,225,793 4,537,851	162,316,522 (103,232,892) (334,525,141)
More than 6 month up to one year USD			55,203,131		3,614,468	2,044,606	60,862,205	94,527,690 3,724,270 - - 161,672 507,258 98,920,890	98,920,890 (38,058,685) (231,292,249)
More than 3 month up to 6 months USD			14,395,016	000,086		2,048,370	17,423,386	103,486,097 971,157 - 133,563 104,590,817	(87,167,431) (87,167,431) (193,233,564)
More than one month up to 3 months		7,320,600	17,248,202			23,673,985	48,242,787	2,000,000 130,270,492 1,163,647 - 8,504,406 141,938,545	(93,695,758) (106,066,133)
Up to one month USD	196,087,817	50,332,102	96,820 49,274,390	12,362,167			308,153,296	63,451,070 253,158,132 3,324,288 590,181	320,523,671 (12,370,375) (12,370,375)
December 31, 2016	Assets Cash and balances with Palestine Monetary Authority	institutions	rinancial assets at fair value through statement of income Direct credit facilities	rinancia assets unlough statement of comprehensive income Financial assets at amortised cost Property and equipment	Projects under construction Intangible assets	Deferred tax assets Other assets	Total assets	Liabilities Deposits for banks, financial institutions and Palestine Monetary Authority Customers' deposits Cash margins Borrowed funds Other provisions Tax provision Other liabilities Total liabilities Shareholders' equity Total liabilities and shareholders'	equity Gap in financial statements Cumulative gap in liquidity risk

Financial statements for the year ended December 31, 2017

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.



Financial statements for the year ended December 31, 2017

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

	From one Non-interest year to 3 More than 3 bearing Years years items USD USD USD	- 257,491,000 257,491,000	71,970,257 103,260 103,260	1,406,431 3,770,000 - 9,409,145 46,655,418 456,703,423 - 3,0278,332 30,278,332 30,278,332 - 3,067,092 3,067,092 3,049,192	101,777	- 1,000,727 - 40,644,948 - 48,061,849 - 461,540,150 - 334,665,442 - 1,075,629,534	- 1,000,727 - 40,644,948 - 40,644,948 - 334,665,442 - 334,665,442 - 334,665,442 - 334,665,442 5,163,104 - 27,056,989	- 1,000,727 - 40,644,948 - 40,644,948 - 57,065,968 - 4,915,433 - 5,163,104 - 5,163,104 - 5,163,104 - 2,051,998 - 2,051,998 - 2,051,998 - 2,051,998 - 1,005,989 - 1,005,989 - 1,005,989 - 2,051,998 -
	From 6 months to one year USD			4,232,714 69,972,454		74,205,168		
	From 3 months to 6 months			29,122,993		29,122,993	29,122,993 - - - 137,017,686 3,068,285	29,122,993 - - 137,017,686 3,068,285 - - - - 140,085,971
	From one month to 3 months		12,357,940	18,154,222		30,512,162	23,781,300 152,947,459 1,912,658	23,781,300 152,947,459 1,912,658
	Up to one month USD		59,612,317	37,909,453		97,521,770	59,114,855 276,119,432 4,483,460	59,114,855 276,119,432 4,483,460
Interest re-pricing gap December 31, 2017		Assets Cash and balances with Palestine Monetary Authority Balance of banks and financial	Datances at banks and mancial institutions Financial assets at fair value through statement of income	Financial assets at fair value through comprehensive income Financial assets at amortised cost Direct credit facilities Property and equipment Projects under construction	2555	Intangible assets Deferred tax assets Other assets Total assets	nnangible assets Deferred tax assets Other assets Total assets Liabilities Banks and financial institutions deposits and Palestine Monetary Authority Customers' deposits Cash margins Borrowed funds Other provision Tax provision Other liabilities	nriangible assets Deferred tax assets Other assets Total assets Liabilities Banks and financial institutions deposits and Palestine Monetary Authority Customers' deposits Cash margins Borrowed funds Other provision Other liabilities Total liabilities Total shareholders' equity

149

Financial statements for the year ended December 31, 2017

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

December 31, 2016			,	Re-pricing gap	ing 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	More than 3 years	Non-interest bearing items	Total
	OSD	OSD	OSD	USD	OSD	ÛSD	OSD	OSD
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
r mancial assets at fan 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
Fotal 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	1	1		-		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	1,163,64/	9/1,15/	3,724,270	3,772,193	29,17,934	500 101	41,583,089
Bollowed Idilds Other provisions							250,161 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
Fotal 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
Fotal shareholders' equity		•		- 4 modulo		•	89,067,289	89,067,289
shareholders' equity	319,933,490	141,938,545	104,590,817	98,759,218	157,778,670	397 782 089	94,356,993	960,072,367
Cumulative gap in liquidity risk	(207,868,011)	(301,563,769)	(388,731,200)	(430,242,681)	(530,004,448)	(132,222,359)	-	

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48

Financial statements for the year ended December 31, 2017

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.

