بنك القدس
Quds Bank

ANNUAL REPORT

2018

INDEX

The Beginning of the March

Quds Bank began its march in 1995, and since then, has developed its business and adopted a strategy that merges the best personal banking services with advanced investment solutions especially designed to protect, preserve, and develop wealth. Hence, it has become one of the most prominent and significant banking institutions in Palestine, providing the market with an integrated package of advanced banking and investment services and business solutions that are designed to fulfill the needs of both corporate and individual clients and that allow them to participate in supporting the national economy.

Quds Bank was established as a limited liability shareholding company with a capital of $20,000,000, a sum that was increased during the bank's years of operation to $83,570,667. Credit for this success and development goes to the high degree of professionalism in offering an integrated group of banking services and products to startups and individuals, as well as employing its strong capital base and extensive experience to undertake an outstanding role in the field of financing.

Its 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 countrywide level. Quds Bank operates out of its headquarters in Ramallah, in addition to branches distributed strategically throughout Palestine.

Mission

To be an exceptional financial institution that offers comprehensive and advanced banking solutions and services that meet the expectations of clients, allowing them to attain their goals.

Vision

To utilize Palestinian capital in the development and growth of the national economy, and provide innovative financial solutions that add value to all the country's sectors and enrich the lives of our customers.

Values

To implement the highest standards of professional commitment, as well as the best banking practices of transparency, fairness and good governance.

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 relationship with all sectors. In recognition of its achievements and results, as well as its outstanding performance, it has been recognized as the best bank for savings accounts in Palestine by International Finance Magazine. It also received the Strongest Bank in Training and Development award from Banking Executive magazine. Quds Bank was also recognized as the Best Bank in Palestine, according CPI Financial and its affiliate magazine Banker Middle East, which also named Quds Bank as one of the 100 largest banks in the Middle East.

These awards confirm the bank's commitment to the banking sector and reinforce its exceptional position both locally and regionally, and acknowledge of its position as a pillar of the Palestinian banking community. Furthermore, they motivate the bank to continue developing its services in order to provide an entire suite of banking products and offerings that meet the needs of its clients while contributing to the development of the Palestinian national economy.

Best Bank
In Palestine
Awarded By
CPI Financial
Banker Middle East
2015

Best
Specialized
Savings Bank
In Palestine
Awarded By
International Finance Magazine
2016

Chairman's Message

Dear Shareholders,

On behalf on myself and all the members of the Quds Bank Board of Directors, I am pleased to welcome you and to extend my sincerest gratitude in the confidence as shareholders in the capital of this esteemed institution, that enjoys leading status among the banks operating in Palestine.

With pride, reassurance, and confidence, I, together with my colleagues on the board of directors, am pleased to present you the 24th Annual Report of Quds Bank for the fiscal year ending on December 31, 2018, which highlights the bank's results and activities. It will become clear to you that your institution has maintained its pioneering role and advanced financial position in spite of the local and regional economic situation that has affected the performance of various economic sectors in the region, including the banking system.

The year 2018 has been a pivotal and an important strategic point in Quds Bank's journey, and has seen an increase in the bank's capital, from US$68,376,000 to USD83,570,667. Last year's capital increase materialized through the distribution of free share profits to shareholders at the rate of 10 percent, amounting to US$6.38 million, and issuing shares in favor of Jordan Kuwait Bank at the rate of US$8.5 million, all in line with the plan to increase capital to US$100 million by 2021.

Dear Shareholders

The performance of Quds Bank during 2018 culminated in it owning the bank portfolio shares of all Jordan Kuwait Bank (JKB) branches operating in Palestine, including assets and liabilities after a merger agreement that helped build a strategic relationship with JKB in order to benefit from its network of relations with international correspondent banks and its experience in the banking sector.

Financial Achievements

Quds Bank succeeded in continuing its solid performance during 2018, which was evident through the increase in total assets by 12.77 percent compared to the end of last year, reaching $1.21 billion at the end of 2018 compared to $1.076 billion on December 31, 2017. These numbers indicate the growing client confidence in the bank, which is reflected in the increase in client assets by 12.12 percent, reaching $959.4 million on December 31, 2018 compared to $855.7 million on December 31, 2017. Another noteworthy indicator is the increase in the direct credit facilities portfolio by 5.97 percent, reaching $697.8 million at the end of 2018, compared to $658.5 the previous year.

Shareholder equity reached $111.4 million on December 31, 2018, with a growth rate of $8.7 million at a rate of 8.48 percent compared to December 31, 2017. The bank achieved net profits of $11.6 million against $11.2 million in the previous year. Net income for 2018 reached about $63.6 million against $53.7 million in 2017, with an increase of $9.9 million at a rate of 18.5 percent.

Ladies and Gentlemen

The bank has mobilized all its efforts to provide advanced banking services and products that satisfy its clients and fulfill their needs as well as develop its capacities at various levels and activities in its quest to achieve its vision. Quds Bank continued on its path of excellence, and its efforts culminated in launching the Prime program for individuals as well as the Prime corporate program, tailor-made for the bank's VIP clients.

In line with the strategy that aims to provide outstanding and unique services, the World Elite card was launched, in a first for a Palestinian bank. Furthermore, Quds Bank was listed among the first banks to issue MasterCard in Palestine on MasterCard website under the Middle East and North Africa (MENA) region, offering the opportunity for further communication in selecting suitable cards for the needs of different clients.

Also in its efforts to develop its capacities at all levels, Quds Bank was the only bank to offer an award at the Palestinian banking market's level through special saving accounts campaigns to achieve client satisfaction.

Digital Technology

In line with the bank's comprehensive strategy, during 2018, Quds Bank continued to develop the quality of its electronic services system. Development processes included the improvement of the technical environment to fulfill the growing need to provide more advanced and flexible services, efforts that culminated in a large increase in the number of subscribers in all electronic services.

Expansion and Geographic Presence

After the merger with JKB branches in Palestine, Quds Bank succeeded in expanding its branch base. There are currently 40 branches and offices spread throughout Palestine, in the West Bank and Gaza, reinforcing the bank's client base and increasing its deposits, facilities, and investment portfolios. Quds Bank also opened a representative office, as the first bank in Palestine, in the Jordanian capital Amman after obtaining all the necessary approvals from the relevant authorities in Jordan and Palestine. The office will be inaugurated in the first quarter of 2019, and will allow clients to benefit from the package of outstanding banking services and products through the network of branches extending throughout the homeland's governorates and in neighboring Jordan.

Human Capital

The bank continues to work on attracting and maintaining the best talent in order to reinforce efficiency and the quality of its team. The bank also continued to reinforce staff loyalty and increase their satisfaction by creating an incentive system for all employees. The Bank also dedicated its efforts to reinforce its staff commitment toward the workplace and clients by developing their capacities through 165 training programs that saw the active participation of 2756 staff members.

Local Community Service

Quds Bank continued to pursue its path of corporate social responsibility, serving the communities in which it operates in order to achieve inclusive development in Palestine. This year, the bank focused on providing support to the health, education, and sports sectors, participating in 86 different activities distributed across various fields.

Looking Forward

The next 12 months will see the implementation of a strategic plan that will take the bank to the highest levels of awareness in order to achieve its objectives. We shall take into consideration, as we look forward to future horizons, that we have strong strategic allies and shareholders who support our efforts in creating significant leaps in the level of our services and improving our position. This will be achieved through realistic as per our strategic plan and objectives.

Acknowledgements

I would like to take this opportunity, on behalf of myself and the Board of Directors, to extend my deepest gratitude and appreciation to the bank's shareholders and clients for their confidence. As always, we will continue our efforts to achieve a solid financial position with increasing strength and prominence. I would also like to thank the Palestinian Monetary Authority for its support and encouragement as well as its effective role in developing and improving the performance of the banking sector in Palestine.

I would also like to express my appreciation for the efforts of my colleagues the members of the Board of Directors for the outstanding professional efforts they have exerted to achieve these results. My deep gratitude also goes to all Quds Bank team members for their dedication and loyalty.

Members of the Board

Leadership and Stability

Akram Abdullatif Jerab

Chairman of the Board

Master’s Degree in Business Administration
Durham University, Britain

Bachelor’s Degree in Pharmacy
University of Baghdad

- Chairman of the Board of Directors of the Arab Company for Science and Culture, Qasyun University, Syria
- Member of Board of Trustees, Jerusalem Open University, Palestine
- Member of Board of Trustees, Istiqlal University, Palestine
- Member of Board of Trustees, Yasser Arafat Foundation
- Major Shareholder and Member of the Board of Directors, Al-Jazira Bank, Sudan
- Chairman of the Board of Directors, Dar Al-Dawa› Company, Jordan
- Major Shareholder in the Arab Hotels Company, Millennium Hotel
- Major Shareholder and Member of the Board of Directors, Jerusalem Real Estate Company
- Chairman of the Board of Directors and Owner, Cometa Scientific, Britain
- Chairman of the Board of Directors and Owner, Cumberland Care Ltd., Nottingham, Britain
- Founder and Chairman of the Board of Directors, Al-Karmel Company, Jordan
- Member of the Board of Directors, Sun day Resort, Dead Sea, Jordan

Duraid Akram Jerab

Vice-Chairman of the Board

Master's Degree in Business Administration
Durham University, Britain

Bachelor's Degree in Business Administration
Kent University, Britain

- Managing Director of the Medical Section, Al-Karmel Company Group, Jordan
- 17 years of experience in the trade and marketing of medical supplies and pharmaceuticals
- Numerous investments in the Arab world
- Member of the Board of Directors, Dar Al-Dawa' Investment Company, Jordan (2007-2015)
- Member in the Board of Directors, Nutridar, Jordan (2011 - 2014)

Dr. Ahmad Abd Al-Salam Majdalani

Member of the Board
Representative of the Palestinian Pension Agency

Ph.D. in Political Economy

- Chairman of the Board of Directors, Palestinian Pension Agency
- Member of the Board of Trustees, Al-Istiqlal University, Palestine
- Former Palestinian Minister of Labor

Ruba Muhammad Masruji

Member of the Board

Master's Degree in Business Administration, Birzeit University

- Board member and CEO, United Securities Company
- Shareholder and board member, Masrouji Group
- Member of the Arab Chamber of Commerce and Industry, Jerusalem, 2018
- Board member of the Popular Art Center
- Board member of Tibaq Publishing House
- Member in a number of leading Palestinian associations (Inash, Applied Research Institute (Arij), Friends of Birzeit University, Consumer Protection, Jeel Al Amal, Miftah, Palestine Institute of Governance).

Ahed Fayeq Bseiso

Member of the Board

Bachelor’s Degree in Architecture, Cairo University

- Board member, Palestinian Development Fund
- Board member, Palestinian Banking Corporation
- Treasurer, Greek-Palestinian Economic Cooperation Council
- Member of the Board of Trustees, Al Quds Open University
- Member of the Board of Trustees, Palestine Investment Fund
- Board member, Spanish Palestinian Institute for Higher Training
- Representative, Spanish Olive Palm Organization, Palestine

Waleed Najeeb Al Ahmad

Member of the Board

Bachelor’s Degree in Electrical Engineering

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

Muntasser Izzat Abu Dawwas

Member of the Board

Bachelor's Degree in Accounting and Financial Management
Buckingham University

- General Manager, InvestBank, Jordan
- Certified Public Accountant, USA

Dr. Hamed Jaber

Member of the Board

Ph.D. in Electrical Engineering

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

Saleh Jaber Ihmaid

Member of the Board

Bachelor's Degree in Accounting

- 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, Kuwait, Jordan and Palestine
- Board member, Arab Union for Exporters and Logistics
- Member of the Board of Trustees, Qassioun University, Syria
- Board member, Al Takafol Insurance Company

Dr. Majed Awni Abu Ramadan

Member of the Board

Senior Consultant in Eye Medicine and Surgery, Attended the British Royal Eye Surgery College

- Colleague of the Royal College of Surgeons, Edinburgh
- Mayor of Gaza city and Chairman of the Palestinian Local Authorities Union
- Chairman of the Board of Directors, Al-Sahel Municipalities Water Authority
- Chairman of the Board of Directors, Gaza Eye Surgery Company
- Member of the Board of Trustees, St. John of Jerusalem Eye Hospital, Britain
- Member of the Board of Trustees, Al-Azhar University
- Former General Manager, International Cooperation Administration and the Hospitals Administration, Ministry of Health.

Haitham Samih Al-Battikhi

Member of the Board
Representative of the Jordan Kuwait Bank

Bachelor's Degree in Political Science and International Relations (Honors), Kent University in Canterbury, UK

- Head of Retail and Private Banking, JKB.
- Chairman of the Board of Directors, Ejara Financial Leasing Company
- Chairman of the Board of Directors, Sanad Capital Company
- Chairman of the Board of Directors, United Financial Investments Company
- Vice Chairman of the Board of Directors, Middle East Payment Services Company
- Member of the Board of Trustees, Jordan Museum
- Board Member, Queen Rania Foundation.

Ibrahim Hamad Abu Dayyeh

Member of the Board
Representative of Al-Shuruq Financial and Real Estate Investments Company

Bachelor's Degree in Law

- Chairman of the Board of Directors, Al-Shuruq Financial and Real Estate Investments Company
- Chairman of the Board of Managers, Al-Sahm International Company for Financial Brokerage and Investments
- 30 years of experience in the banking sector in Qatar, Jordan, and Palestine
- General manager and Board Member, Palestine Investment Bank (2000 - 2011)
- Deputy General Manager, Arab Jordan Investment Bank (1990-2000)
- Executive Vice President, BNP Paribas, Qatar (1977-1990)

General Manager's Message

Dear Shareholders

Two years ago, I was granted the honor of becoming the chief executive officer of this esteemed institution, entrusted with your confidence and a great legacy. While relying on a rich heritage of achievements as a factor of strength, this imposes a vast responsibility and a difficult task, one which I would not have been able to rise up to were it not for the confidence of the chairman and members of the Board of Directors, the cooperation of my colleagues, and the strength of the bank's team, as well as the confidence of its shareholders and loyalty of its clients. They are the source of the bank's strength, and our real wealth. I extend my deep gratitude and appreciation to each and every individual who belongs to Quds Bank for their dedication, contribution, and confidence.

Where Were We? Where Are We Now? Where Are We Going?

The year 2018 was one full of challenges at the local, regional, and international levels. Despite of these difficulties, Quds Bank maintained its high standards and excellent banking practices at all levels and in spite of the economic conditions surrounding the Palestinian banking environment.

The bank continued its successful march and succeeded in achieving growth levels aimed at achieving continued development, and saw assets increase by 13 percent, affirming that Quds Bank is built on safe and transparent foundations and is following a well-defined path through long-term investment and away from high risk.

Ladies and Gentlemen

Quds Bank is proud of the confidence given to it by its clients and investors, which continues to grow with time, reinforcing its role in providing outstanding banking services and products that satisfy and fulfill the needs of its clients in line with the bank's strategic vision. Quds Bank established the Prime program for corporate and individual clients, representing a clear value-added and allowing major clients to enjoy an outstanding and unique banking experience with extreme privacy, professionalism, and precision. In another first for a Palestinian bank, the World Elite card was launched, representing a passport characterized by an exclusive world of luxury, as well as an entire menu of benefits.

During 2018, a number of services and products were developed to focus on selective categories in the marketplace. Marketing campaigns for these services and products were met with huge success. This year, Quds Bank offered the largest banking award for saving accounts, in addition to kicking off a modernization and improvement plan for its network of branches, electronic channels and ATM machines. In line with its new corporate identity, the modern designs reinforce the bank's individuality and strategic vision, as well as provide clients with a thoroughly modern banking environment.

As part of the bank's policy and strategy to strengthen confidence in the Palestinian economy, last year Quds Bank completed the process of acquiring JKB's Palestinian branches in a step that will enable it to benefit from JKB's network with correspondent banks. It also continues to contribute to advancing banking services and products, in addition to allowing the bank to expand geographically through a network of 40 banks and offices. Consequently, Quds Bank continues its expansion plans inside Palestine in order to serve its clients with comfort, ease, and speed.

Quds Bank became a strategic partner in Experts, a pioneering company in providing integrated solutions in information technology in Palestine, acquiring 35 percent of the company and providing the necessary technical and technological support to the bank in addition to investing in vital sectors.

The bank's forward march was formulated in order to achieve economic, social, and environmental development both inside and outside the bank. This vision was reflected on the bank's human resources, who form the most important basic element on which its growth and development are based. The efforts of the human resources sector during the past year were focused on developing the capacities and skills of staff members through workshops at the bank and outside its premises. The bank also succeeded in hiring team members with outstanding qualifications, which reflected positively on improving performance and productivity.

The bank also furthered its corporate social responsibility agenda in 2018, with quality contributions that were effective in achieving sustainable development through community services programs. The scope of community participation is wide for Quds Bank, encompassing various sectors and activities ranging from health and education to cultural, sports, and developmental. Quds Bank also offered its support to a number of humanitarian initiatives and activities as part of its commitment to leave a clear and tangible fingerprint on all segments of the community to which it belongs.

Esteemed Shareholders

The process of summarizing Quds Bank's annual report in a few lines for 2018 was not an easy task because the value of achievement by an outstanding team cannot be articulated in letters. I thank God Almighty for all He provided us at Quds Bank, allowing us achieve and exceed the expectations of our clients. I offer my deep gratitude and appreciation to the Palestinian Monetary Authority for its great efforts in serving this nation and its different economic sectors, providing the means to upgrade the Palestinian banking sector. I also thank the chairman and members of the Board of Directors for their valuable confidence, and offer all my colleagues at the bank my gratitude and appreciation for all the efforts they exerted in serving clients. I also thank the bank's shareholders, and wish them continued success, advancement, and prosperity.

Executive Management Team

Exceptional Performance

Executive Management Team

Salah Hidmi

General Manager

Bachelor's Degree in Financial and Banking Sciences, Amman National University

Joined Quds Bank on September 7, 2016

Zaid Al-Jallad

Deputy General Manager

Bachelor's Degree in Financial and Banking Sciences, Amman National University

Joined Quds Bank on July 15, 2012

Muntasser Al-Shashtari

Deputy General Manager

Bachelor's Degree in Computer Science, Yarmouk University

Joined Quds Bank on June 10, 2018

Monther Odeh

Senior Vice President
Credit Quality Division Head

Master's Degree in Accounting, Jordan University

Joined Quds Bank on January 27, 2013

Muhammad Salman

Senior Vice President
Finance and Administrative Division Head

Master's Degree in Accounting, Jordan University

Joined Quds Bank on September 8, 2013

Suha Khader

Senior Vice President
Gaza Area Head

Bachelor's Degree in Mathematics, Al Quds Open University

Joined Quds Bank on July 21, 2013

Ra'ed Abd Al-Halim

Senior Vice President
Central Operation Division Head

Master's Degree in Business Administration, Al-Najah National University

Joined Quds Bank on August 6, 2001

Aysar Al Nubani

Vice President
Administrative and Engineering Services Head

Bachelor's Degree in Electronic Engineering, Damascus University

Joined Quds Bank on June 27, 2010

Alaa Titi

Vice President
Director, Information Technology Head

Bachelor's Degree in Computer Systems Engineering, Quds University

Joined Quds Bank on March 14, 2010

Albeir Habash

Vice President
Credit Head

Bachelor's Degree in Business Administration, Birzeit University

Joined Quds Bank on August 2, 2009

Nader Salhi

Vice President
Foreign Operation Head

Master's Degree in Economics,
University of Cannes, France

Joined Quds Bank on May 25, 2014

Muhammad Shawar

Vice President
Business Banking and Financial Institutions Head

Master's Degree in Business Administration, Birzeit University

Joined Quds Bank on February 1, 2017

Mahmoud Odeh

Vice President
Sales Channels and Branches Network Head

Bachelor's Degree in Business Administration, Bethlehem University

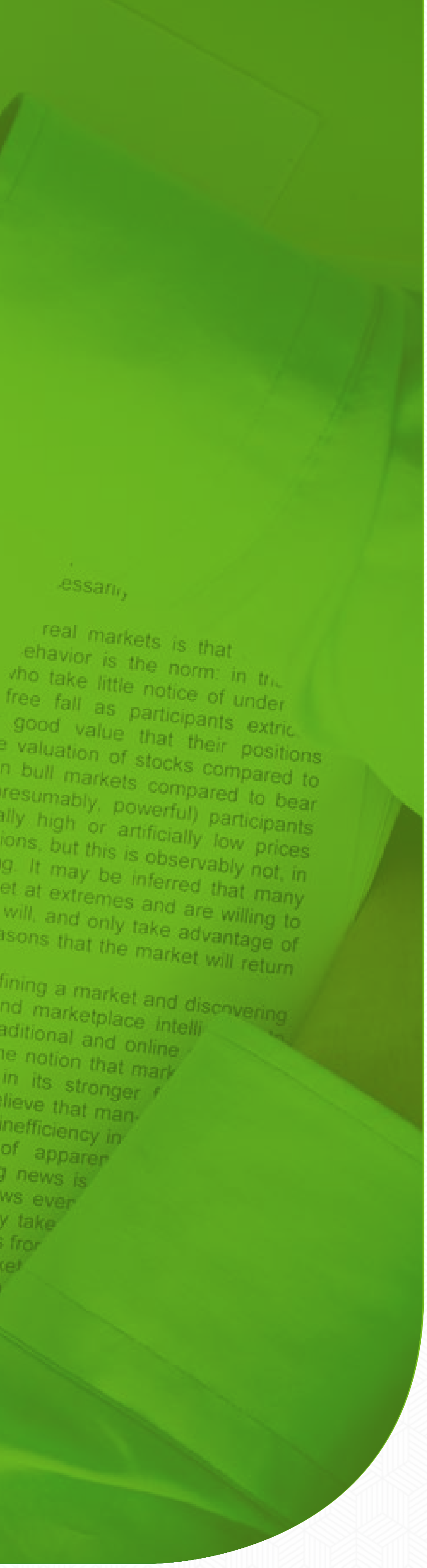
Joined Quds Bank on November 4, 2018

Faraj Ghnaim

Vice President
Human Resources Head

Bachelor's Degree in Economics and Political Science, American University of Cairo

Joined Quds Bank on January 6, 2019



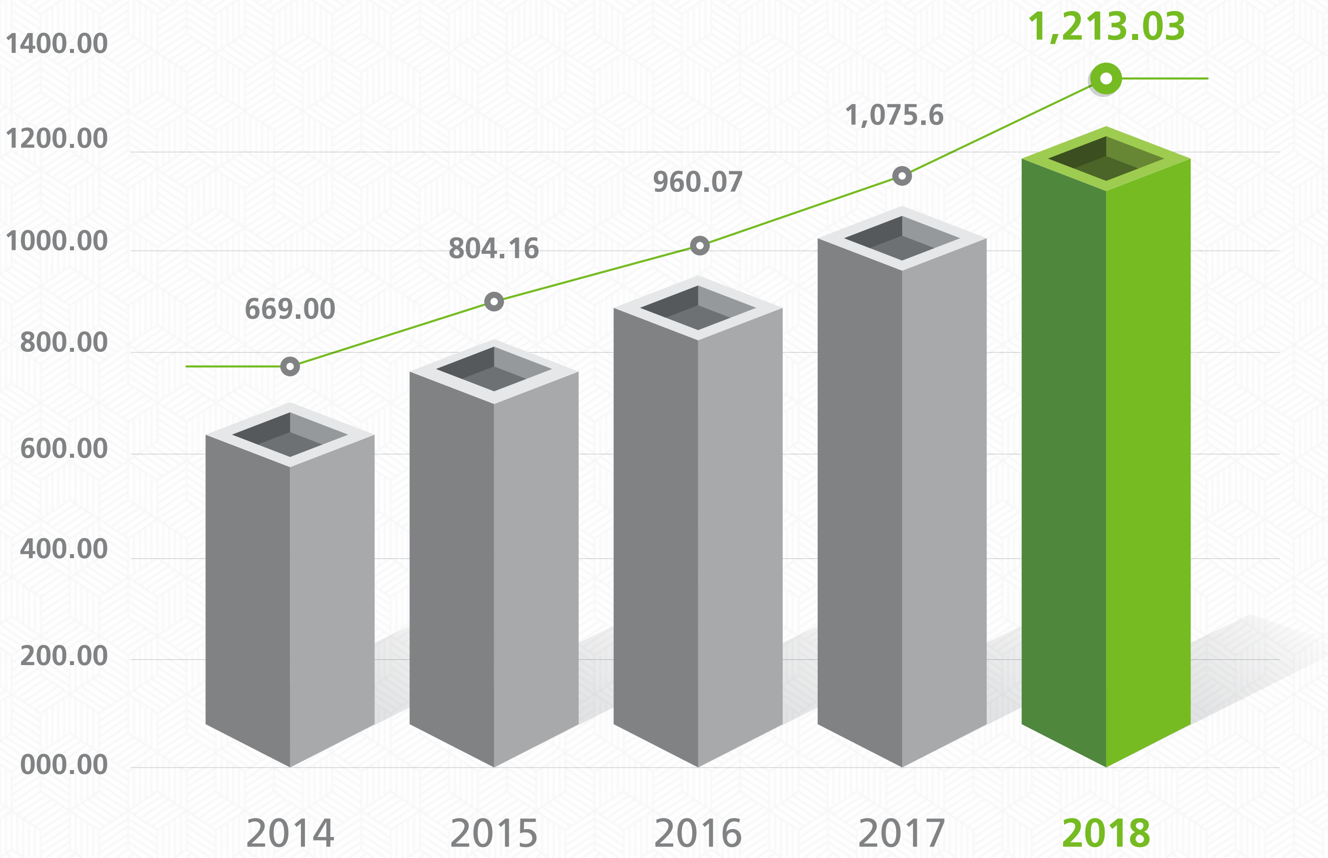
Key Performance Indicators

As a result of the developmental strategic plans Quds Bank has implemented over the years, it achieved promising results during 2018. Through this, the bank managed to cement its status as one of the largest and most prominent banks in Palestine.


Subdivision 1
Best subdivision value
Product placement in different regions
Subdivision 3
Main company
Subdivisions
Others
Competitors

Total Assets

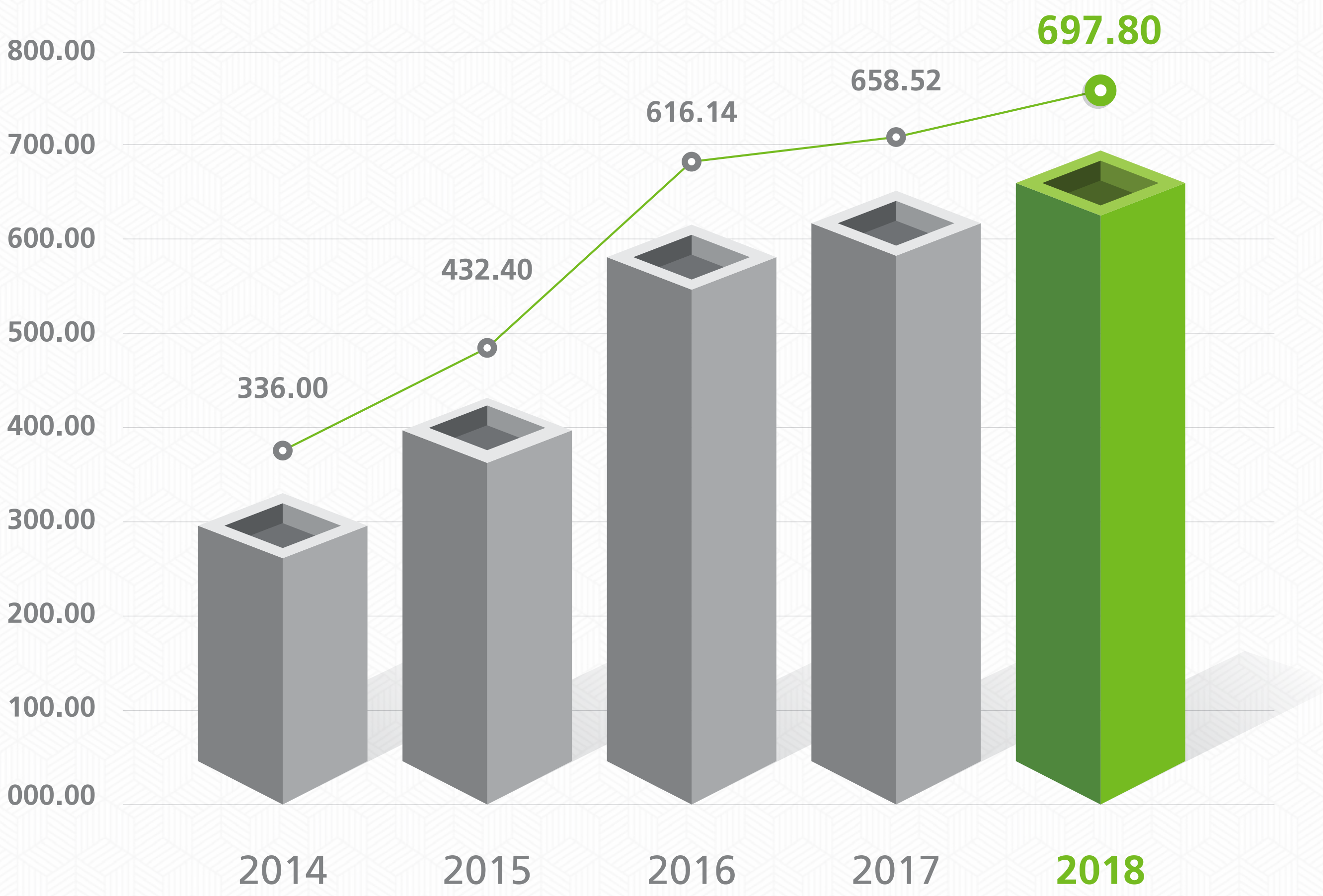
Total assets as of December 31, 2018 amounted to about US$1.213 billion, compared to US$1.075 on December 31, 2017, a growth of US$137.43 million or 12.78 percent. The compound annual growth rate (CAGR) for the period between 2014 and 2018 amounted to approximately 12.64 percent.



Total Assets - Million Dollar

Net Direct Credit Facilities Portfolio

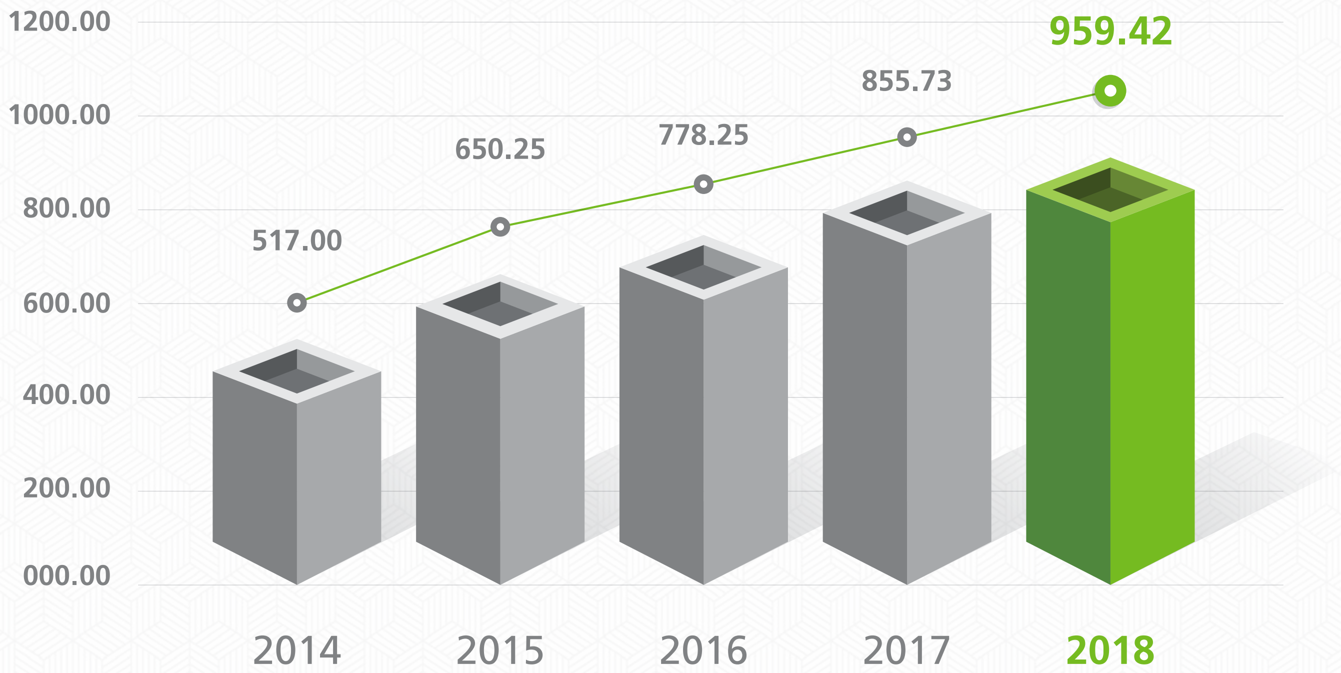
Direct net credit facilities on December 31, 2018 amounted to US$697.8 million, compared to about US$659 on December 31, 2017, growing by about US$39 million at a rate of 5.97 percent. The compound annual growth rate (CAGR) for the period between 2014 and 2018 amounted to approximately 15.74 percent.



Net Direct Credit Facilities Portfolio - Million Dollar

Client Deposits and Cash Margins

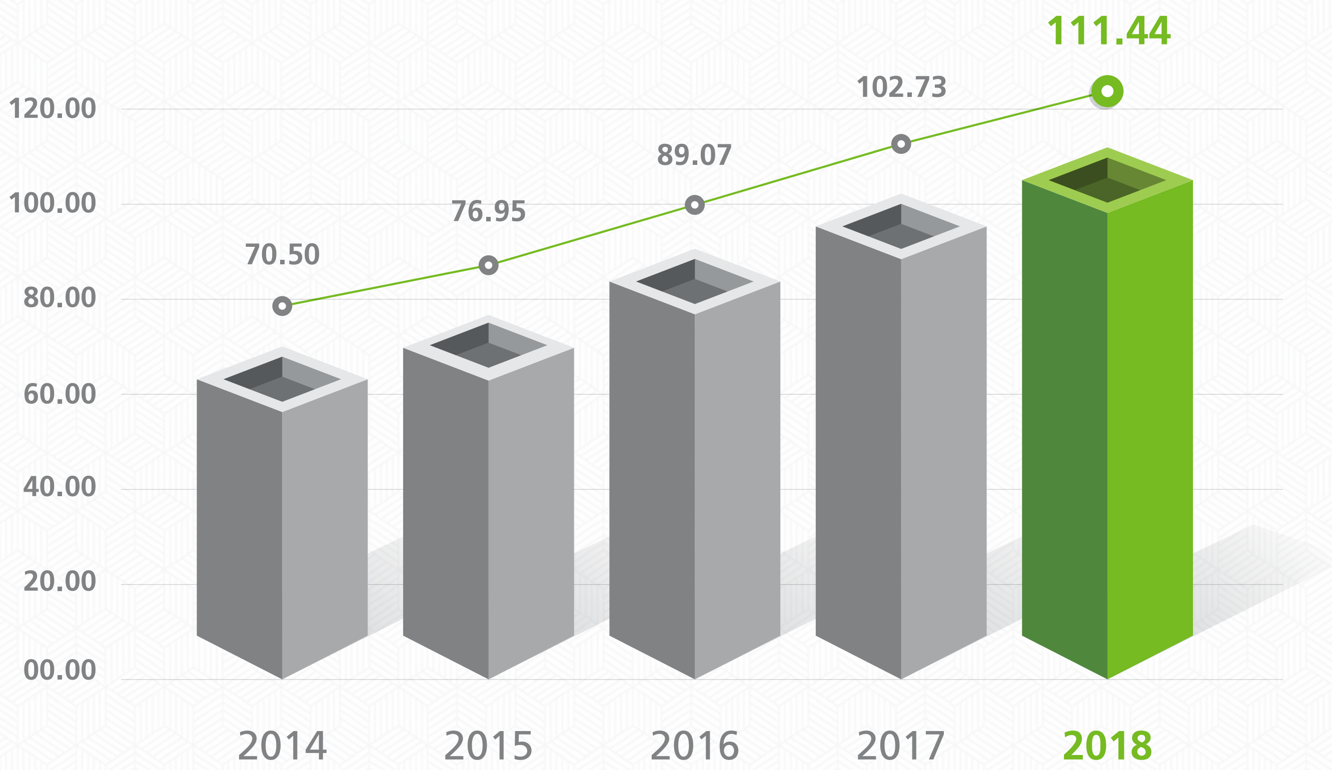
Total deposits and cash margins on December 31, 2018 amounted to US$959.4 million, compared to US$855.73 million on December 31, 2017, a growth of 12.12 percent that is equivalent to US$104 million. The compound annual growth rate (CAGR) for the period between 2014 and 2018 reached approximately 13.16 percent.



Client Deposits and Cash Margins - Million Dollar

Net Equity

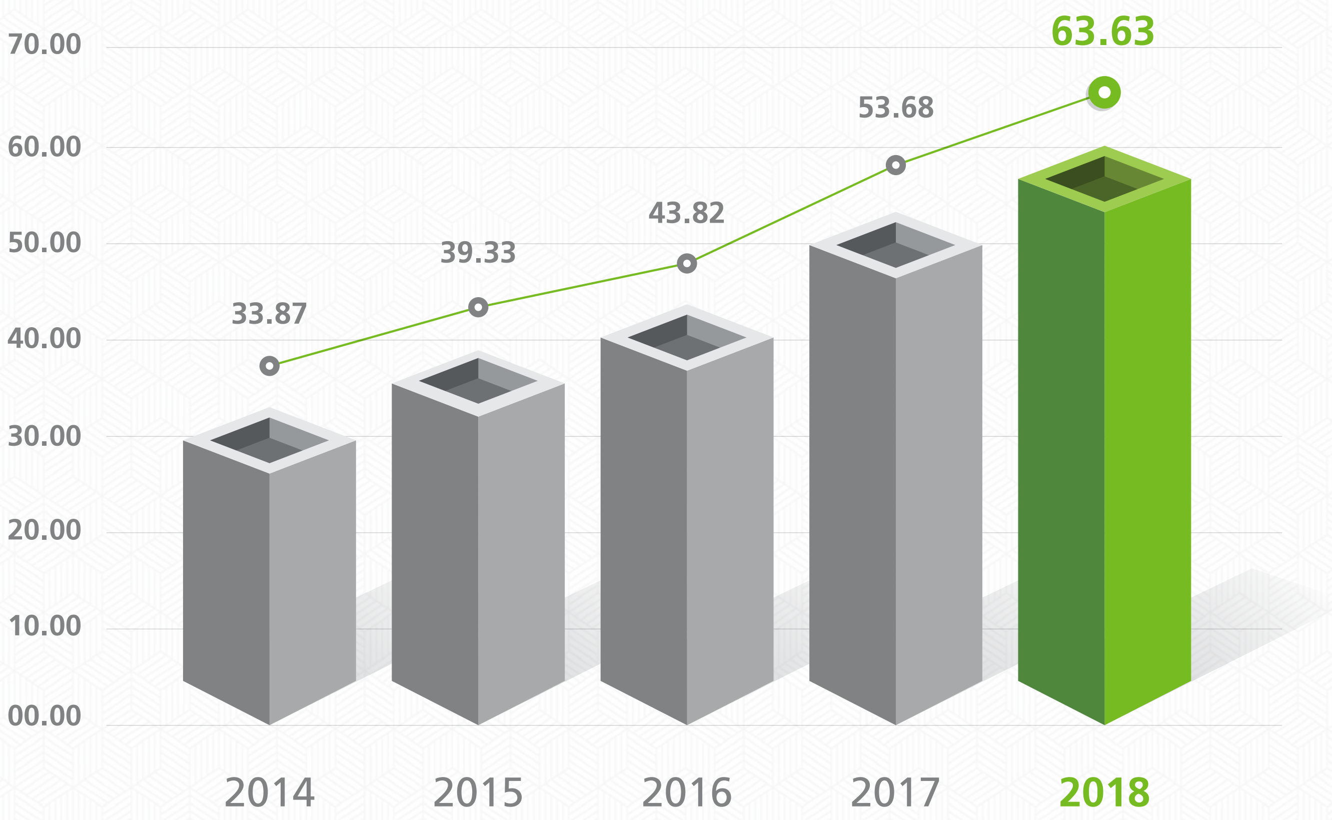
Net equity reached US$111.44 million as of December 31, 2018, compared to US$102.73 million on December 31 2017, with a growth rate of 8.48%, which is equal to US$8.7 million. The compound annual growth rate (CAGR) for the period between 2014 and 2018 reached 9.59%.



Net Equity - Million Dollar

Gross Income

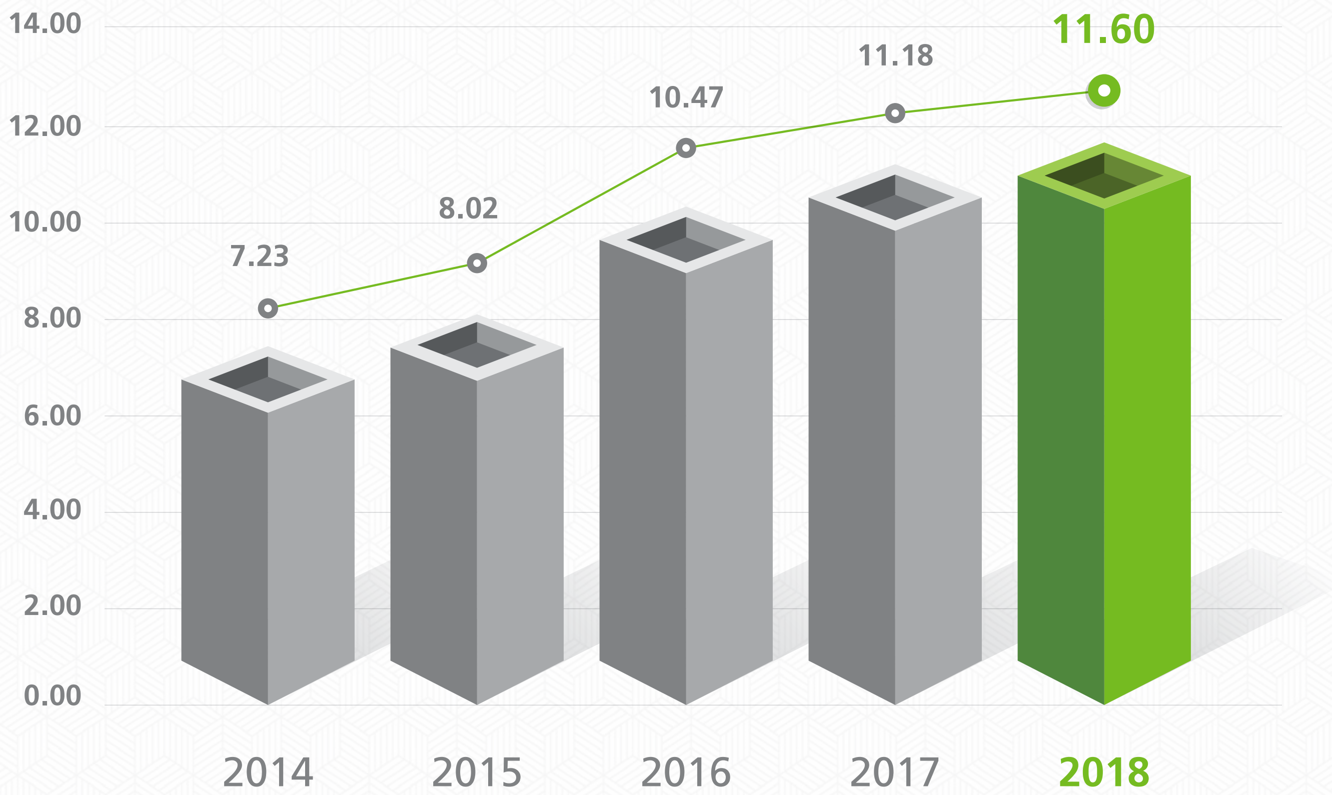
Gross income for 2018 amounted to US$63.63 million, compared to US$53.68 million in 2017, a growth rate of 18.5% or USD9.9 million. The compound annual growth rate (CAGR) for the period between 2014 and 2018 reached 13.44%.



Gross Income - Million Dollar

Net Profit after Taxes

In 2018, net profit after taxes amounted to US$11.6 million, compared to US$11.18 million in 2017, a growth rate of 3.7%, which equals US$415,000. The compound annual growth rate (CAGR) for the period between 2014 and 2018 reached 9.9%.



Net Profit after Taxes - Million Dollar

Palestinian Banking Sector

The Palestinian economy continued to slow down over the past year as a result of the political and economic unrest that negatively affected economic activity in general and the Palestinian banking sector in particular, which exhibited poor growth rates in its indicators in 2018 compared to previous years. Quds Bank, however, achieved higher growth rates in client deposits and direct credit facilities than those recorded in the Palestinian banking sector.

The financial statements of the Palestinian banking system showed a decrease in growth rates in total assets, down to 2% compared to 12% at the end of 2017, reaching US$16,129, while the growth rate at Quds Bank was about 9%, reaching US$1.2 billion.

Client deposits increased in the Palestinian banking sector by only 2% at the end of 2018, compared to 13% at the end of 2017, reaching US$12,227 million, with a growth rate at Quds Bank of approximately 12%, reaching US$959 million.

The direct facilities portfolio also increased at the end of 2018 to 3.72% compared to 16.98% at the end of 2017, reaching US$8,217. The rate of increase at Quds Bank was about 5.92%, reaching US$698 million.

Quds Bank's share in deposits and facilities in the Palestinian banking market increased, reaching 7.84% and 8.49% in client deposits and credit facilities, respectively.

The number of licensed banks numbered 14 at the end of 2018, including seven local banks (three of which are Islamic banks) and seven foreign banks, which work through a network of 351 branches and banking offices, compared to 334 branches and offices last year.

Key Financial Indicators

For Quds Bank compared with the banking sector in Palestine

Total deposits - rounded to millions (US$)

Item	2014	2015	2016	2017	2018
Banking Sector	8,935	9,655	10,596	11,982	12,227
Quds Bank	517	650	778	856	959

Net direct credit facilities - rounded to millions (US$)

Item	2014	2015	2016	2017	2018
Banking Sector	4,896	5,825	6,772	7,922	8,217
Quds Bank	336	432	616	659	698

Growth rates in deposits compared to the banking sector

Item	2014	2015	2016	2017	2018
Banking Sector	7.57%	8.05%	9.75%	13.08%	2.04%
Quds Bank	22.96%	25.77%	19.65%	10.03%	12.12%

Growth rates in facilities compared to the banking sector

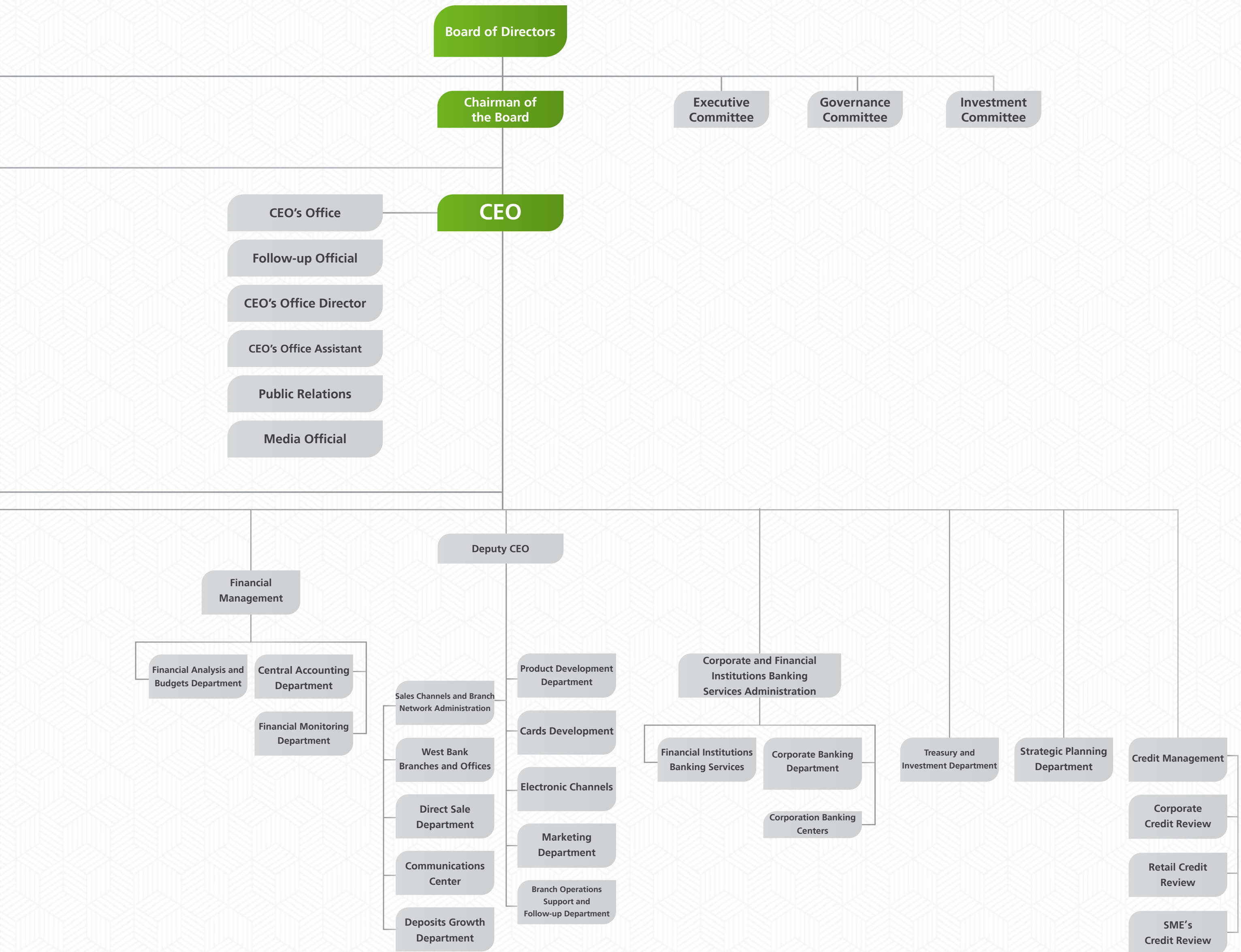
Item	2014	2015	2016	2017	2018
Banking Sector	9.28%	18.97%	16.27%	16.98%	3.72%
Quds Bank	16.93%	28.69%	42.46%	6.98%	5.92%

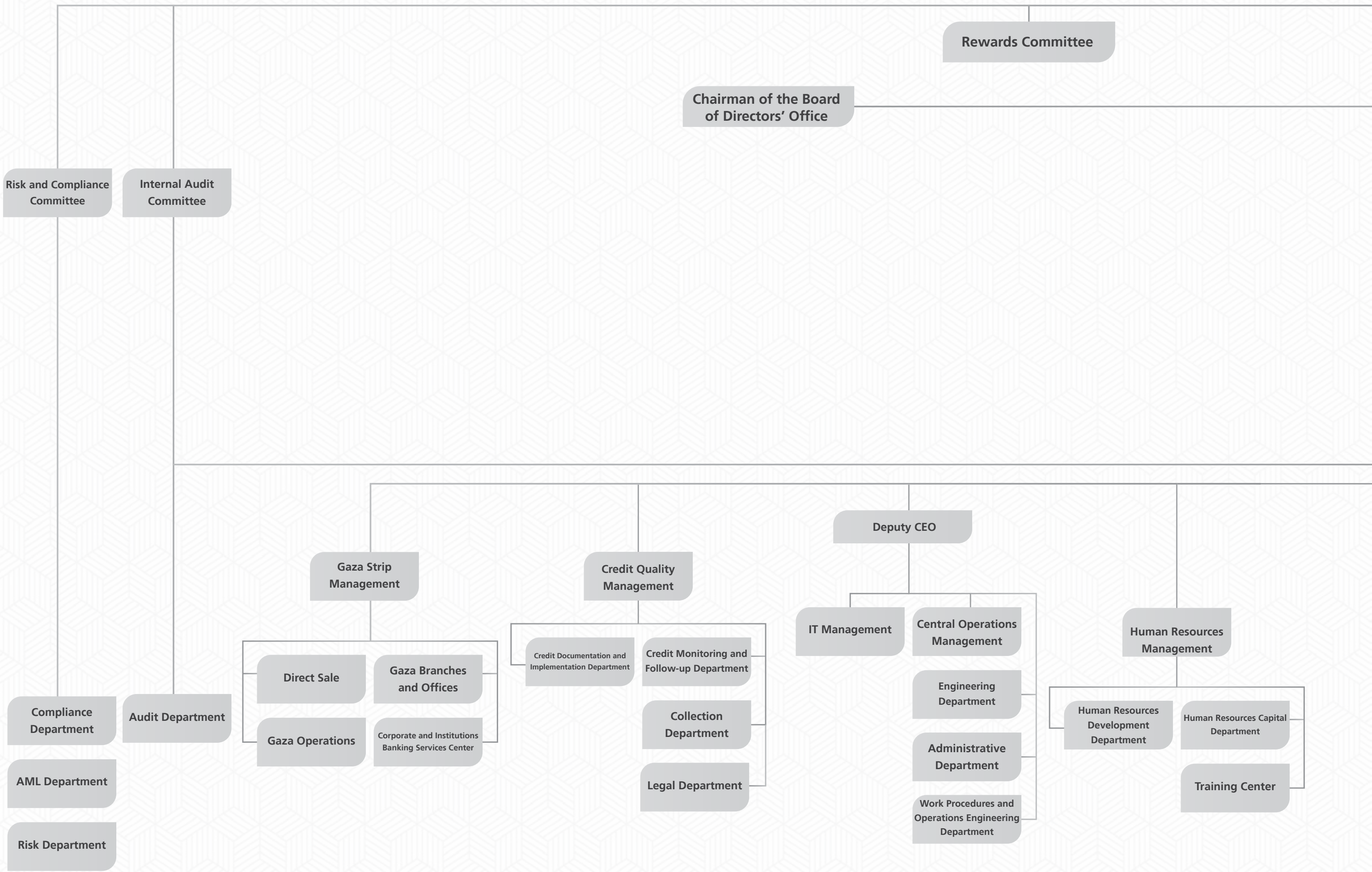
Market share of deposits and facilities

Item	2014	2015	2016	2017	2018
Deposits	5.79%	6.74%	7.34%	7.14%	7.84%

Organizational Structure

for 2018




Rewards Committee
Chairman of the Board of Directors' Office
Risk and Compliance Committee
Internal Audit Committee
Compliance Department
AML Department
Risk Department
Audit Department
Gaza Strip Management
Direct Sale
Gaza Branches and Offices
Gaza Operations
Corporate and Institutions Banking Services Center
Credit Quality Management
Credit Documentation and Implementation Department
Credit Monitoring and Follow-up Department
Collection Department
Legal Department
Deputy CEO
IT Management
Central Operations Management
Engineering Department
Administrative Department
Work Procedures and Operations Engineering Department
Human Resources Management
Human Resources Development Department
Human Resources Capital Department
Training Center

Future Plans and Strategy

Basis of our Development

The Bank's Strategic Plan

Quds Bank is currently seeking to update its strategic plan for the years between 2019 and 2021. In order to achieve this, the Strategic Planning Department applied different methodology from past years, clearly identifying work horizons and drafting a well-defined work plan, appointing additional qualified staff members at the department with distinct roles and responsibilities. The department studied the bank's current position using a SWOT analysis of the bank's strengths and weaknesses, opportunities and challenges in all departments and branches, and its position in general. The department also considered the strategic analysis from the perspective of the executive management and the board of directors in order to identify all strengths and weaknesses, utilizing the assets and opportunities to set the priorities of the analysis in order to reach strategic objectives and set performance indicators, as well as identify potential programs and set priorities for the plan and a timeline for the program in 2019.

Among the strategic objectives achieved by Quds Bank during 2018 at different levels are:

1. Merger with Jordan Kuwait Bank

In 2018, Quds Bank acquired the bank portfolio of JKB branches in Palestine, including all its assets and liabilities. This helped build a strategic relationship with JKB and will allow Quds Bank to benefit from JKB's network of relations with international correspondent banks, as well as its experience in the banking sector. Additionally, through the merger, the number of the bank's branches increased to reach 40 branches and offices, reinforcing Quds Bank's client base and increasing its deposits, facilities, and investments portfolio.

2. Technological Development

- The banking system, including the branches, were modernized and given a new look. The International Financial Reporting Standard Number 9 (IFRS 9) regarding potential losses form was applied.
- The necessary preparations were made to use the new electronic clearance system.
- The international interbank electronic transfer system (SWIFT) was updated.
- Work on reconciling loans and reducing manual work on them was automated.
- The process of delivering passwords to credit card holders through the SMS system was developed.
- An electronic channel work mechanism was developed, which saw a large increase in the number of subscribers to all electronic services, including debit cards, Quds Smart mobile banking app, Qudsi Online Internet banking and SMS service.
- The bank also increased the level of public awareness of its electronic services for all sectors of society, beginning with its team members and clients, and moving on to the community as a whole through iPads available at its branches and on social media.

3. Services and Products

- Quds Bank launched the World Elite Credit Card, in a first for a Palestinian bank, in its efforts to cater to its VIP clients, offering unique benefits around the world. In 2017, the bank launched a cash-back benefit campaign, which is now offered on all Quds Bank branded credit cards.
- The bank was listed on the international MasterCard website in the Middle East and Africa section, a move that will help achieve its strategic regional expansion goals.
- In 2018, the bank continued to expand its subagent network to service rapid transfers. The service provision locations were increased by 11 new locations, increasing the number of locations to 74, with 34 locations and 40 branches and offices throughout the West Bank and the Gaza Strip. Promotional plans

were organized for Ramadan 2018 (Hallat Al-Baraka) and Al-Adha campaign (You Can Transfer Even Love!).

- Work is underway with Western Union Company to make transfers available online.

In 2019, Quds Bank will launch a program to increase client loyalty and reinforce belonging between the bank and its clients, in addition to facilitating client evaluation by branches and offering preferential benefits and incentives as required.

4. Service Quality Level

The bank continued to improve its performance in all areas that affect the level of service provided to clients through:

- Implementing improvements that came about as a result of secret client visit program and submitting the necessary recommendations to develop staff.
- Visiting branches and offices on a monthly basis for evaluations.
- Offering training courses to staff in branches and offices in order to upgrade service quality standards, including appearance protocols, communication skills, and how to deal with clients.
- Continue to monitor client comments on social media and the complaints and suggestions box available at all Quds Bank branches.

5. Training

- The Training Center was updated and developed internally so that activities are carried out more accurately and rapidly. The new staff training program was activated (Onboarding program) and the new staff manual was updated. A training program was developed for cross-selling. The number of training activities and programs of all types reached 165 activities and training programs divided over 6,135 training hours in which 2,756 people participated.

Training needs for 2019 will be identified accurately, in addition to holding a training program for new staff members on a quarterly basis, intervening in the design of activities and the development of the internal training team, as well as selecting the best trainers in the local and international markets.

6. Reinforcing Staff Loyalty and Increasing their Satisfaction

Due to the importance of institutional transformation and achieving growth and profitability, as well as increasing loyalty levels and job security, in order to appreciate and encourage staff to innovate and achieve in addition to raise performance levels, a modern and fixed incentive system was put in place, built on accurate standards to achieve the bank's strategy of growth and profitability related to the financial institutions department and corporate services, in addition to the former incentive system for staff members in branches and the sales department (clients' front window).

Innovative Banking Products and Services

Our Paramount Goal


القدس
Quds Bank

Retail Services

In line with the bank's strategic outlook, the Product Development Department introduced a modern services and products package that matches the vision of the bank's clients, raising the level of services offered and meeting the needs of the banking market in the most optimal fashion. The new package will also work to enrich the bank's digital services and products with the aim of contributing to an increase in the number of clients. For individuals, the department developed offerings and services focused on credit products, which include the following:

- Cash-to-cash, which are personal loans against blocking cash collateral covering 100% of the requested loan in a cash collateral account.
- Financing against real-estate collateral, which will enable clients to secure loans for the value of real estate owned by them in order to settle personal needs, in return for mortgaging their real estate.
- Management continued to develop retail loan products such as personal loans, car loans, residential loans and loans for purchases. It also approved many corporations as accredited parties that can transfer salaries to enhance financing opportunities.

The department launched a savings campaign entitled "Enta Ma Tzid-ha! Ehna Bas Benzid-ha!," which allows clients to open savings accounts with US$350 or its equivalent in other currencies, or to increase their current accounts in order to enter the draw for the 2018 prizes from Quds Bank. Prizes include:

- One kilo of gold every month
- A quarter of a million shekels every three months
- A million shekels at the end of the year

• Quds Bank MasterCard™ Credit Cards

Quds Bank offers Silver, Titanium, World and World Elite MasterCard credit cards that feature the slogan "Your Partner". The cards were designed with the comfort of clients in mind, offering them flexibility in paying for purchases and the freedom to withdraw money inside and outside the country.

In line with the bank's strategy of offering unique services to our clients, Quds Bank launched the new World Elite credit card in a notable event during the first quarter of the year. This card is a passport to a world of luxury and exclusive privileges that enhance the lifestyle level of clients, allowing them to enjoy generous hospitality locally or globally. The benefits of this card include:

- Access to a global personal assistant or Quds Bank's Concierge, available 24 hours a day, seven days a week at 001-669-272-1180. Through the service, card holders can enjoy travel planning and reservation services.
- Admission to more than 900 airport lounges around the world for the cardholder and a travel companion.
- Membership in the black level Discovery loyalty program that is part of the Global Hotel Alliance. The program offers cardholder access to more than 550 exclusive hotels and resorts in 76 countries around the world, including Anantara, Corinthia, Kempinski and Pan Pacific Hotels and Resorts.
- Free nights and unique experiences at Soneva Fushi in Thailand and Soneva Kiri in the Maldives.
- Free upgrade to the gold category in the Qatari Airways Privilege Club, which provides first class features on Qatar Airlines and on all members of the One World Alliance.

In addition to releasing new credit cards, Quds Bank was listed among the topmost banks that issue MasterCard credit cards in Palestine on the MasterCard Global website in the Middle East and Africa region, helping clients choose the right card for their needs through

https://mea.mastercard.com/en-region-mea.html

Stemming from Quds Bank's commitment to providing a high level of services, in the first quarter of the year, the bank continued to offer its 12% cashback feature on purchases within the maximum limit allowed permanently. Additionally, the bank launched the "Your Memories Are better with Your Partner" campaign in the third quarter of the year in cooperation with the MasterCard Global Corporation, giving MasterCard holders the opportunity to win one of four prepaid family trips to Paris along with US$20,000 divided over 20 winners who use their cards for purchases locally and internationally.

Quds Bank also developed banking services and electronic financial transactions, adopting the strategy of developing cards and launching new products with additional features and with advanced technology as part of the framework of achieving the national strategy's main goals of financial inclusion in Palestine.

Quds Bank Launches

World Elite MasterCard and Prime Programs

Mr. Salah Hidmi

«Quds Bank is the first Palestinian bank to launch of the World Elite credit card, which is a passport that enhances the lifestyle of our clients. Cardholders receive generous hospitality in any place they visit.»

Mr. Mohammad Qadadah

"I congratulate Quds Bank on this distinguished event. We are happy to be in Palestine and to partner with Quds Bank, which is one of the most important banks in the Palestinian banking sector."

His Excellency, Mr. Azzam Al-Shawwa

"Congratulations and thanks to Quds Bank on launching the World Elite card and the Prime program, as part of its continuous work to develop its banking services. I confirm that the Palestine Monetary closely observes electronic financial transactions in Palestine as a one of the major goals of the national strategy for financial inclusion in Palestine is to make new financial and banking services available and to make sure that they meet the needs of all social sectors."

• Retail Banking

Through the Retail Banking Department, Quds Bank is harnessing its efforts to attract and develop the deposits of individuals and corporations by offering comprehensive banking services to a large sector of client accounts. Despite the challenges and the tough competition in the Palestinian banking sector, Quds Bank implemented progressive approaches to offering financial services and banking products specifically to corporations and individuals in order to enhance the efficiency and quality of banking products and services by designing the Prime Corporate and Prime Individuals programs.

PRIME
برايم

Prime

Quds Bank created the Prime Individuals exclusively for VIP clients, through a program that satisfies their vision while simultaneously aligning with their banking needs. The program allows the clients to enjoy a group of sophisticated privileges in record time and accuracy in a highly comfortable manner.

Business Prime

The Prime Corporate program was designed as part of a qualitative step to form a significant addition to Quds Bank's VIP clients. With this program, clients enjoy a distinguished banking experience, added value, and unique services, as well as being able to manage their accounts effectively and easily.

Quds Smart

QUDSI ONLINE

• Electronic Services

Developed recently, this department aims to enhance the use of technology in order to facilitate banking transactions for clients.

The department follows up on the following systems:

- Debit cards
- Mobile phone application (Quds Smart)
- Internet banking application (Qudsi Online)
- Short text messages
- ATM machines and their issues

The department aims to raise the level of services offered to clients and to increase the percentage of subscribers, encouraging them to use digital services instead of the more traditional ones. In 2018, the department:

- Verified client mobile phone numbers; more than 120,000 mobile phone numbers were checked - the project is still ongoing.
- Unified the SMS systems.
- Increased the number of clients subscribed to its electronic services including debit cards, mobile phone banking app, Internet banking app and short text messages.
- Avoided incurring financial losses due to overdrafts whereby clients did offline transactions on debit cards and charged these to their accounts without paying the amount due. These transactions were specified and retrieved from MEPS.
- Conducted extensive field visits to familiarize branch and office employees with the importance of electronic services and their many features, encouraging them to market them and increase growth rates.
- Adjusted short text messages sent to clients such as welcome messages, texts sent about transactions done through Quds Smart or Qudsi Online applications to align with the various banking applications.
- Added the short text message service to new services such as checks drawn on accounts that do not have enough balance, outstanding loan installments, postdated checks that are about to be cashed, returned checks and the change in global LIBOR rates.
- Prepared a multi-leveled plan to reduce the number of clients visiting branches and offices and to direct them instead to receive services through electronic outlets.

moving money for better

• Quick Transfers – Western Union

Quds Bank recognizes the importance of developing a suite of unique products and services, and with that in mind, in 2018, the bank expanded its network of agents for quick transfers to include Western Union, making it the biggest network in Palestine. The service is now offered in 74 locations and through 29 agents divided over 34 locations and 40 branches and offices throughout the West Bank and the Gaza Strip, catering to the needs of the Palestinian people. The bank continued to develop and enhance its work procedures in accordance with Western Union best practices, and in line with the best global practices, compliance regulations, and the implementation of security systems and AML policies in transfer transactions.

• Service Quality and Customer Care

The Service Quality and Customer Care Unit aims to raise the level of services offered to the bank's clients in a way that would raise the bank's competitive ability and achieve its goals. This, in turn, will make Quds Bank the first option for both clients and employees who associate the bank with distinction.

Objectives of the Service Quality and Customer Care Unit

- Preparing and applying the unit's strategy of services and their role in creating successful opportunities for the bank
- Changing the patterns of dealing with clients and overcoming the common mistakes in thinking patterns, speaking and expression.
- Gauging client satisfaction by measuring service quality and the performance of bank employees who deal with customers directly.
- Recognizing the tools that support the positive image and reputation of the bank regarding the way their complaints are handled and responded to.
- Introducing branch employees to different categories of clients and how to deal with them.

Main Standards of the Service Quality Unit

One: What the branch looks like and how clean it is

Two: The way the employee looks

Three: Offered services

• Marketing Campaigns

The Marketing Department outlined very clear objectives for 2018, which culminated in updating Quds Bank's brand identity that was designed with a contemporary and relatable spirit. A new color was chosen for the bank's brand that is endowed with meanings of development, growth and renewal. The color is also attractive to people while maintaining the identity of the most prominent landmark in the city of Jerusalem.

Quds Bank is distinguished its campaigns in 2018, which were carried out in a modern and unique style through effective communication outlets with clients and the general public. It succeeded in relaying a positive image about the bank's activities and services on the visual, auditory, and print levels on the bank's website and social media platforms.

These activities included:

- Promoting savings accounts through the campaign, "Enta Ma Tzid-ha! Ehna Bas Benzid-ha!" This is the biggest campaign for prizes on savings accounts in the country, offering one kilo of gold per month, a quarter of a million shekels every three months and a million shekels at the end of the year.

- Promoting MasterCard™ credit cards through the campaign, "Your Memories Are better with Your Partner, MasterCard credit card from Quds Bank." This program offered cash prizes, a prepaid family trip to Paris and promoted for the cashback feature of up to 12% cash back."

- Promoting for quick transfer services through Western Union by launching campaigns that align with festive occasions including "It's Time for Blessings!" during Ramadan, the "Now You Can Transfer Love!" campaign for the Adha holiday and "Your Eid Transfer Ensures Your Prize!"

This is in addition to launching marketing campaigns for other services offered by Quds Bank throughout the year, including cash deposits through ATMs, Saturday working hours, night-time working hours in commercial center offices, electronic services on the Quds Smart mobile app and Qudsi Online internet banking.

• Call Service Center

In 2018, Quds Bank's Call Center witnessed a noticeable improvement in performance and technologies used in serving the bank's clients. The center is one of the most important communication points with clients, and the service network expanded to include all the current and new clients of the bank. The center is also an important point in marketing the bank's products and services, as well as a significant source of market data, a tool to measure client satisfaction, offering an opportunity to develop the bank's products and services.

All incoming calls to branches in the West Bank and the Gaza Strip were transferred to the center in 2018 in order to make available the best services for clients at the highest quality levels and in record timing to provide high quality sales services through the branches, and has become the first communication point with the bank's clients through social media platforms. Support was also provided to the bank's branch agents of Western Union service through the center.

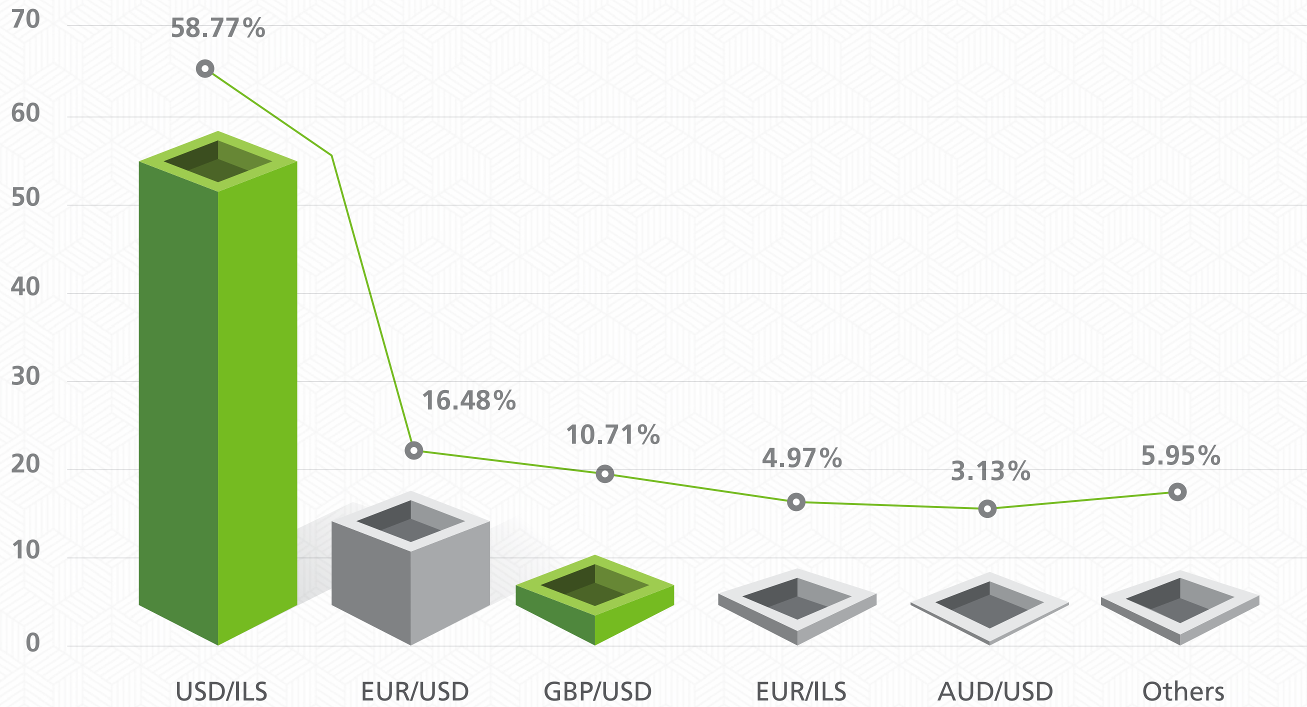
• Correspondent Banks

The Financial Institutions Department is responsible for strengthening relationships with correspondent regional and global banks in order to facilitate banking products and services, including foreign trade, international payments and cross-border transactions for retail and corporate clients and for institutions. This is in addition to participating in the management and facilitation of inter-banking transactions to include foreign currencies, capital market activities and derivatives, establishing accounts, in addition to operational and investment accounts.

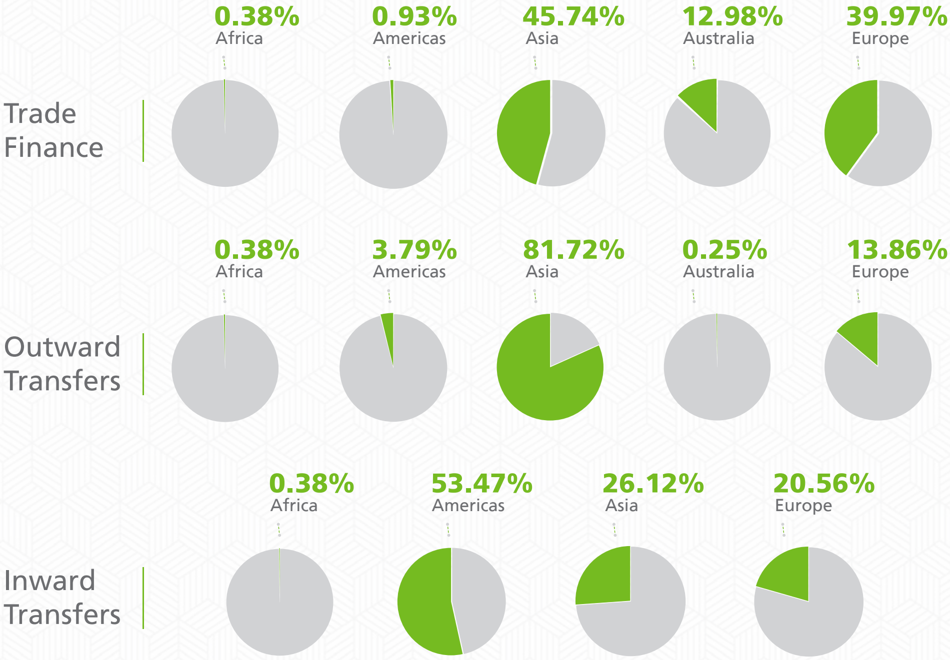
The department works closely with the treasury and with the banking, commercial, and financial departments to understand the global requirements of clients, to implement the latest standards and market requirements, and to contribute to applying global standards in compliance, anti-money laundering and financing of terrorism.

Quds Bank's strategic plan is based on expanding the network of its correspondents globally. The bases for new relations were set with several new financial institutions including a number in the Arab Gulf region, Europe, China, and Turkey. The bank also strives to meet the needs of clients through the global network of correspondents while committing to all global compliance provisions.

Capital and foreign exchange markets formed more than US$1 billion in transactions.
Following are the main concentrations in currency pairs:



We meet our clients' needs through global banking services. We have made remittance transactions worth more than US$1 billion, concentrated in Asia. We have also boosted services and commercial financing solutions and issued letters of credit and guarantees for more than US$50 million.



• The Treasury

Quds Bank's Treasury Department performs an integral role in managing assets, providing profit, financial stability, raising the bank's 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 in open opportunities. It improved its performance in order to secure and serve the bank's interests and provided its clients with trading services in various currencies. It was also able to achieve trade and profit goals and neutralize the risks they are exposed to within a highly professional framework.

The Treasury Department aims to maintain its role as a vehicle for increasing returns, maintaining the bank's stability and continuing to develop its performance and services by providing innovative products that cater to client needs and that align with the latest international developments.

The Treasury Department offers immediate services of sales and purchases for clients at competitive prices around the clock. This is in addition to postdated transactions through which purchases and sales of currencies can be executed with postdated due dates that can extend up to one year from the date of execution of the transaction. This enables clients to protect the value of assets and cash flows, and take into account the fluctuations of exchange rates, and neutralize their impact on the budget.

The department provides these services at competitive prices, with high professionalism around the clock to serve the bank's clients.

• Corporate Services

Corporate Banking and Financial Institutions Services Department

Quds Bank offers the corporate sector a wide spectrum of banking solutions, allowing businesses to support their projects, build capabilities and push their businesses forward. Whether a newly established company or a successful business, Quds Bank works closely with the client to provide them with continuous support to ensure their company's success. The Financial Institutions and Corporations Banking Services Department is strategically prioritized at Quds Bank through the departments and includes the following:

1. Corporate Banking Services Department

Quds Bank strives to reinforce its relationship with its current clients while also attracting new ones, offering all the banking facilities and services that cater to their business needs.

The department offers services to large corporations and to MSMEs through its service centers distributed throughout the governorates of the West Bank and the Gaza Strip. These centers are available 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 biggest employer of Palestinian workforce of all types and segments.

The department offers its services through relationship managers who are highly qualified and proficient in working with corporate clients to meet their needs through the following:

- Opening accounts for corporations
- Issuing checkbooks.
- Issuing various LGs for different local and foreign entities.
- Managing internal and external transfers in different currencies.
- Internal and external trade operations for both importing and exporting purposes.
- Selling and buying local and foreign currencies at various prices
- Granting clients credit facilities, including short-term (to finance working capital) or long-term (to finance fixed assets) through the following products:

- Working capital limits
- Decreasing working capital (dedicated to tenders)
- Long-term loans (to finance fixed assets)
- Short-term loans (to finance purchase or sales or bank discounts)
- Bank guarantees of all types
- Deferred or on sight letters of credit

2. Financial Institutions Banking Services Department:

This department establishes and manages relationships with financial institutions and corresponding banks. Quds Bank acknowledges the significance of this department in establishing new and managing long-standing relations in serving clients and catering to all their needs whether in the country or abroad. It forms and runs the relations of the bank with corresponding banks to serve clients in Fx (exchanging currencies) and in financing and receiving remittances.

أعمال
A'amal

Branching and Expansion Strategy


Quds Bank
www.qudsbank.ps
بنك القدس
Quds Bank
ATM

Branches and offices

Branch/Office	Address
Headquarters Branch	Ramallah and Al-Bireh Quds Street - Al-Masyoun
Ramallah Branch	Ramallah and Al-Bireh - Downtown Rukab Main Street/ Al-Hajj Yasin Building
Al Bireh Branch Downtown	Ramallah and Al Bireh - Al-Bireh Al-Ma'aref Street- Bourj Al-Bireh Building
Gaza Branch	Gaza - Al-Sabra Neighborhood Omar Al-Mukhtar Street - Across from the Municipality Park
Nablus Branch	Nablus - Downtown Trade Center
Al-Eizariya Branch	Jerusalem- Al-Eizariya - Ras Al-Kabsa Main Street- Qabsa Fork
Beit Jala Branch	Bethlehem- Beit Jala Al-Sahl Street
Salfit Branch	Salfit Shuhada'a Road
Toubas Branch	Toubas - Main Street Near Shifa'a Hospital
Attil Branch	Tulkarem- Attil - Northern Region Main Road- Al-Sha'arawiyeh Entrance
Hebron Branch	Hebron - Main Street Ibn Rushd Circle
Al-Masyoun Branch	Ramallah and Al-Bireh - Al-Masyoun Neighborhood Quds Street - Al-Masyoun
New Nablus Branch	Nablus- Downtown Sufyan Street
Al-Bireh Branch	Ramallah and Al-Bireh- Al-Bireh Tahouneh Street
Al Rimal Branch	Gaza - Al-Rimal Omar Al-Mukhtar Street
Tulkarem Branch	Tulkarem - Downtown Al-Asir Street
Jericho Branch	Jericho - Ain Al-Sultan Mutanazahat Road
Jenin Branch	Jenin - Downtown End of Abu Bakr Street
Jenin Branch Haifa Road	Jenin - Haifa Road Haifa Building
Qalqilya Branch	Qalqilya - Downtown Shayma'a Circle
Khan Younis Branch	Khan Younis - Al-Saqqa Street Al-Farra Building
Al-Nuseirat Branch	Deir Al-Balah - Al-Nuseirat Salaheddin Street
Ras Al Joura Branch	Hebron - Ras Al-Joura Nazmi Salah Building
Bethlehem Branch	Bethlehem New Mahd Street
Jabalia Branch	Gaza- Jabalia Jabalia Camp - Across from the UN
Rafah Branch	Rafah Nijmeh Circle
Beit Lahia Office	Gaza- Beit Lahia The Public Street - Maydan Beit Lahia
Anabta Office	Tulkarem Main Road- Badran Building
Al-Najah Office	Nablus Al-Najah University Campus
Biddya Office	Salfit - Biddya Main Street
Silat Ad-Dhahr Office	Jenin - Silat Ad-Dhahr Main Street
Quds Street Office	Ramallah and Al Bireh - Al Bireh Quds Street- Raje'een Circle
Qabalan Office	Nablus - Qabalan Main Street
Jamma'in Office	Salfit- Jamma'in Main Street
Al Zaytoun Office	Gaza - Al-Zaytoun Salaheddin Street
Tarqumiyah Office	Hebron - Tarqumiyah Main Street
Ad Dhahirya Office	Hebron- Ad Dhahirya Al-Mashro'ou Region - Next to Chamber of Commerce
Al-Zahra Office	Gaza - Al-Zahra Next to Al-Zahra Municipality
Birzeit Mall Office	Ramallah and Al-Bireh - Birzeit Birzeit Mall
Plaza Mall Office	Ramallah and Al-Bireh - Al-Balou Bravo Mall
Al-Tira Marketing Office	Ramallah and Al-Bireh – Al-Tira Batn Al-Hawa Street

Quds Bank continues to offer all its integrated banking services to clients without the need to visit branches, having adopted the most recent electronic banking services in line with the fast developments in the banking industry so that clients can execute all their services through the multiple electronic channels.

Quds Bank managed to own the banking portfolios of the Jordan Kuwait Bank branch in Palestine and has kept the branches in Ramallah and Jenin. Therefore, the number of the bank's branches and offices now numbers 40, spread all around the West Bank and the Gaza Strip, in addition to 70 ATM machines; two more than in 2017. The goal is to reach a wide base of clients and to achieve the strategy of financial inclusion.

The bank aims to attain its strategic goal of regional expansion. Therefore, Quds Bank obtained the endorsement of the Palestine Monetary Authority to open a representative office in Jordan. A memorandum of understanding was also signed to open a branch for the bank in Palestine Commercial Mall in Dahiyet Al-Rihan, which is a huge mall with integrated services.

Currently, work is underway to implement the bank's new brand identity starting with the branches that will be moved, such as the Salfit and Rafidia branches until all the other Quds Bank branches are modernized based on a pre-set plan. This will be implemented in a modern and novel spirit that matches the bank's strategy of improving its services.

Human Capital

The Secret of Our Excellence

Human Capital

The Human Resources Department is one of the most important administrative departments in Quds Bank, focusing on the human element, which is the management's most valuable resource and the most influential in productivity. It is also a cornerstone to enhancing the bank's capabilities, and that is why the bank's management focuses on raising the competence of bank employees in addition to attracting distinguished team members in such a way that would enable the bank to face current and future challenges. The bank's management aims to reinforce the capabilities of its employees by creating an optimal work environment in order for them to utilize their skills and competencies in a manner that best serves them and the bank.

Quds Bank is set apart among other financial institutions due to its highly skilled team, allowing it to recruit and select the best and most experienced staff. The bank's Quds Bank is proud of its professional team, and boasts a female work force that makes up 30 percent of its workforce.

Employees In Headquarters, Branches And Offices

Unclassified branches	Branch employees	Unclassified headquarters	Headquarters employees	Numbers of employees
44	319	25	374	762

Distribution Of Employees By Gender In Headquarters And Branches

Females- branches	Males- percentage	Males- headquarters
70% / employees 534	67% / employees 242	73% / employees 292

Females- percentage	Females- headquarters	Males- branches
30% / employees 228	33% / employees 121	27% / employees 107

762 Total number of employees

363 Total number of employees in branches

399 Total number of employees in headquarters

Distribution Of Employees By Academic Qualifications

Total number of employees	High school and above	Diploma	Bachelor's	Master's
employees 762	employees 84	employees 75	employees 577	employees 26

Employees By Age

Employees By Average Age

years **32**
Average age in Headquarters

years **32**
Average age of branch employees

years **33**
Average age of all employees

years **42**
Average age of managers of branches and offices

years **40**
Average age of managers in Headquarters

Training Center

The Quds Bank Training Center views training as an important investment in human capital and not as a cost. The center works to help every employee achieve their professional vision, working on building, designing and implementing training programs that meet the requirements of our employees while giving new employees special attention by involving them in global conferences and forums in the banking sector. The center also attracts expertise and local and international specialists in all areas of banking operations as part of a methodology that follows the best practices in the field of banking through the various training programs and activities as follows:

- Internal training
- Local training
- External training
- The onboarding program for new employees
- Specialized Arab and global professional certificates
- Electronic training (Quds Bank educational platform)
- Career day

In 2018, Quds bank conducted 165 training activities and programs, reaching 2756 participants over 6,135 training hours.

The training programs were distributed among the bank's various departments, with headquarters benefiting from 3,461 hours for 954 participants, divided over 104 training programs. The branches and offices of the West Bank received 2,129 training hours for 1,552 participants, divided over 82 training programs. The branches and offices in the Gaza area received 546 training hours for 250 participants, divided over 32 training programs. The total cost of these activities was US$378,370.

The business section received the lion's share of the training budget with 121 training programs and activities, divided over 3,544 training hours for 2,202 participants with a cost of US$254,752. The support section received 79 training programs and activities for 483 participants, divided over 2,366 training hours with a cost of US$100,328. The monitoring and control section received 32 training programs and activities for 71 participants, divided over 225 training hours with a cost of US$23,290.

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

A number of the bank's employees were sent to participate in workshops, forums, conferences and training courses outside of Palestine in order to stay up to date with global and international developments in the banking sector. Sixty employees took part in 26 workshops, forums and conferences outside Palestine at a cost of US$186,155.

There were 60 locally implemented programs and activities at a cost of US$66,202 for 219 participants. The internal training programs that were held at the Quds Bank Training Center were 79 in total at a cost of US$126,014, with 2,477 participants.

A number of the bank's employees worked towards their professional diplomas and specialized Arab and international diplomas and certifications in the banking field, including the Certified International Purchasing Manager (CIPM), Certified Anti-Money Laundering Specialist (CAMS), Certified Management Accountant (CMA), Certified Information Privacy Technologist (CIPT) in addition to other quality and professional certificates.

An e-learning training project, implemented in cooperation with Jordan-based Salalem through the Quds Bank Educational Academy's electronic platform, includes 34 courses specialized in banking such as securities trading, provisions regarding opening accounts for regular clients, accounting principles for banking operations, AML courses, principles of anti-fraud policies, compliance policies, banking products and services for retail and structure of branches, information security, and corporate banking products and services. This portal was used to train new 100 new employees, or 14 percent of the bank's work force, with a working experience that ranges between one month and 15 months. Through the portal, 191 students from various Palestinian institutes and universities were trained in serving customers in different branches and offices, with certificates issued to those who completed their training.

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

Training, introductory and instructional working plans and programs were prepared for new bank employees. These amounted to 29 separate programs based on their dates of appointment and role requirements in certain specialized bank departments. Three collective programs were designed, all of which covered the bank's new employees who joined Quds Bank in July, August and November.

Moreover, Quds Bank employees participated in a Career Day activity, which was aimed to reinforce and strengthen relationships among the bank's employees, allowing them to discuss their career paths, discover new talents and determine their training needs. Also in 2018, the second edition of the new employee guide was printed.

The Training Center carried out internal, local and external programs as follows:

1. Palestinian Banking Institute
2. Union of Arab Banks
3. Master Card
4. INSIEAD
5. Milestone
6. Proactive
7. Experts Training Center
8. Ritaj for Managerial Solutions
9. Arab European Foundation
10. London Gate Academy for Training and Consultancy
11. Jordan Institute of Directors
12. Institute of Banking Studies - Jordan
13. Osool Training and Consulting
14. Salalem
15. Middle East Leadership Academy
16. World Union of Arab Bankers
17. The European Bank for Reconstruction and Development
18. KIATA

Social Responsibility

Our Core Values

Social Responsibility

Since its foundation, Quds Bank has focused on having a clear impact on the communities in which it operates, which falls in line with the bank's strategy to improve all aspects of society and to achieve sustainable social development. The bank believes in the role of institutions in the development process; therefore, it supports women, childhood projects, persons with special needs, development, sports, education, innovation and youth, culture and arts and the environment. In 2018, Quds Bank's total corporate social responsibility expenditure through donations and sponsorships amounted to US$799,414, which supported and sponsored around 86 social activities.

Contribution by Field	Amount of Social Contribution in USD	Contribution by Field	Amount of Social Contribution in USD	Contribution by Field	Amount of Social Contribution in USD
Health and environment	539,916	Sports	32,375	Women	8,561
Education	46,204	Childhood	17,743	Culture and arts	2,000
People with special needs	9,342	Innovation and youth	15,034		
Humanitarian aid	67,239	Development	61,000		

Quds Bank News

يتم بموجبها اندماج فروعه المحلية وضم موجوداته ومطلوباته لـ"القدس"

بنك القدس يوقّع اتفاقية شراكة إستراتيجية مع البنك الأردني الكويتي

الهيئة العامة لبنك القدس تعقد اجتماعها السنوي وتقر توزيع أرباح بنسبة ٢٠٪

رام الله: "بنك القدس" ينظم اجتماعه السنوي لمناقشة خطط تطوير الأعمال للعام ٢٠١٨

بنك القدس يقدم دعمه لجامعة القدس المفتوحة

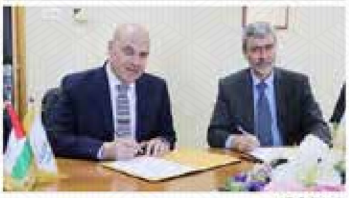
بنك القدس وشركة لاكاسا القابضة يوقعان اتفاقية تعاون مشترك

بنك القدس يوقع اتفاقية مع "التعاون" للمساهمة في الدعم لحملة رمضان

المدخر "يزن منصور" يفوز بجائزة الربع مليون من "بنك القدس"

قيمتها مليون شيكل

مواطن من سلفيت مقيم بأميركا يفوز بالجائزة الكبرى لحسابات التوفير لدى "بنك القدس"



رام الله: بنك القدس ومصلحة المياه يوقعان اتفاقية تعاون

"بنك القدس" يقيم إفطارات رمضانية لموظفيه في جميع الفروع

Shareholder Relations

A Prosperous Partnership

Shareholder Relations

Quds Bank works on creating positive and solid relationships built on the principle of transparency with all its shareholders. The bank strives to communicate with its shareholders through all possible means of communication, whether through the Shareholder Department or through the branches, to maintain positive relationships. The bank is also committed to delivering its annual report, which is issued by the end of every year, and works in every way to encourage shareholders, especially minority shareholders, to attend the annual general assembly meeting and to participate in the voting process, whether personally or by proxy in the event of their absence. General assembly meetings also include the following:

- The attendance of the chairpersons of the board's committees.
- The attendance of representatives of the external auditors to answer any questions regarding the audit or the auditor's report.
- Representatives of the Palestinian Monetary Authority are invited to attend the meetings to be informed of the latest updates.
- The election of board members, 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 the determination of the fees or delegating the board to set the fees.
- The documentation of all minutes of meetings and the issuance of 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 shareholders around the clock through our social media channels.

The following table shows the shareholders with ownership of more than 5% as of December 31, 2018:

	End of 2018		End of 2017	
Name	Number of Shares	Percentage	Number of Shares	Percentage
Akram Abdullatif Jerab	16,679,670	19.95%	15,163,337	22.18%
Jordan Kuwait Bank	8,357,067	10%		
Palestinian Pension Commission	7,521,360	9%	6,837,600	10.00%
Abdel Rahim Jardaneh and Sons Company	6,017,088	7.2%	5,470,080	8.00%
Al-Shurouq Real Estate and Financial Investments Company	5,513,720	6.59%	3,527,777	5.16%

The following table shows shares of board members as of December 31, 2018 compared with December 31, 2017:

Name	Nationality	Position	Number of Shares 2018	Number of Shares 2017
Akram Abdullatif Jerab	Jordanian	Chairman	16,679,670	15,163,337
Duraid Akram Jerab	Jordanian	Vice Chairman	2,986,863	2,715,330
Jordan Kuwait Bank	Jordanian	Member	8,357,067	
Palestinian Pension Commission	Palestinian	Member	7,521,360	6,837,600
Walid Najib Al-Ahmad	Palestinian	Member	75,740	73,400
Muntassir Abu Dawas	Jordanian	Member	41,009	37,281
Saleh Jaber Ahmad Ihmaid	Jordanian	Member	1,992,500	1,855,00
Ahed Fayeq Bseiso	Palestinian	Member	111,315	101,196
Ruba Masrouji Alami	Palestinian	Member	110,000	80,000
Majed Awni Muhammad Abu Ramadan	Palestinian	Member	33,000	30,000
Hamed Abd-al-Ghani Jabr	Jordanian	Member	1,719,800	1,628,000
Al-Shurouq Real Estate and Financial Investments Company	Palestinian	Member	5,513,720	3,527,777

The following table shows share ownership by relatives of board members as of December 31, 2018:

Name	Number of shares 2018	Number of Shares 2017	Relationship
Akram Abdullatif Jerab	**16,679,670**	**15,163,337**	**Chairman**
Muhannad Akram Jerab	3,015,210	2,741,100	Son of Akram Jerab
Duraid Akram Jerab	2,986,863	2,715,330	Son of Akram Jerab
Yazan Akram Jerab	2,829,126	2,571,933	Son of Akram Jerab
Zaid Akram Jerab	2,821,451	2,564,956	Son of Akram Jerab
Al-Shurouq Real Estate and Financial Investments Company	**5,513,720**	**3,527,777**	**Board Member**
Ibrahim Ahmad Abdel Fattah Abu Dayyeh	12,100		Chairman of the Board of Al-Shurouq Company
Ahmad Ibrahim Ahmad Abu Dayyeh	550		Vice Chairman of the Board of Al-Shurouq Company
Duraid Akram Abdullatif Jerab	**2,986,863**	**2,715,330**	**Board Vice Chairman**
Akram Abdullatif Jerab	16,679,670	15,163,337	Father
Muhannad Akram Jerab	3,015,210	2,741,100	Brother
Yazan Akram Jerab	2,829,126	2,571,933	Brother
Zaid Akram Jerab	2,821,451	2,564,956	Brother
Saleh Jabr Ahmad Ihmaid	**1,992,500**	**1,855,000**	**Board member**
Rami Saleh Jabr Musallam	38,500	35,000	Son
Ramzi Saleh Jabr Ihmaid	11,744	65,000	Son
Rula Saleh Jabr Musallam	16,500	15,000	Daughter
Lina Saleh Jabr Musallam	16,500	15,000	Daughter
Dina Saleh Jabr Musallam	16,500	15,000	Wife
Jamileh Muhammad Yousef Musallam	16,500	15,000	Wife
Kamal Jabr Ahmad Ihmaid	400,000	547,008	Brother
Fahd Jabr Ahmad Musallam	7,000		Brother
Ruba Muhammad Mahmoud Masrouji	**110,000**	**80,000**	**Board member**
Muhammad Mahmoud Yousef Masrouji	440,000	314,002	Father
Masrouji Company for Public Trade	330,000	241,651	Board member
Al-Quds Company for Pharmaceuticals	391,110	355,555	Shareholder
Dina Muhammad Daoud Alami	1,503	1,367	Daughter
Nadine Muhammad Daoud Alami	1,503	1,367	Daughter
Dara Muhammad Daoud Alami	1,503	1,367	Daughter
Walid Najib Mustafa Al-Ahmad	**75,740**	**73,400**	**Board member**
Al-Quds Company for Real Estate Investments	500,000	500,000	Walid Al-Ahmad - General Manager
Azzam Najib Mustafa Al-Ahmad	60,170	54,700	Brother
Hosni Najib Mustafa Al-Ahmad	15,042	13,675	Brother
Ranwa Qadri Muhammad Al-Ahmad	5,000		Wife

The following table shows the executive management's share ownership as of December 31, 2018 compared with December 31, 2017:

Name	Nationality	Position	Number of Shares 2018	Number of Shares 2017
Suha Salah Sha'ban Khader	Palestinian	Senior Vice President Gaza Area Head	43,120	39,200
Monther Muhammad Abdel Rahman Odeh	Palestinian	Senior Vice President Credit Quality Division Head	31,240	18,400

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 yearly with the delivery of the general assembly meeting invitation by mail.
- The bank's branches.

Salaries and bonuses for the senior executive management team totaled US$1,595,912 during 2018, compared with USD1,251,764 in 2017.

Issues reverted to voting

Acquiring the branches of the Jordan Kuwait Bank in Palestine.

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

Deloitte and Touche audited the bank's financial statements for 2018, and its fees amounted to US$52,200.

Trading activity during 2017
A summary of Quds Bank's shares trading activity

Item	2018	2017	Change	Change Percentage
Number of traded shares	14,500,696	15,459,301	-958,605	-6.20%
Value of traded shares	29,703,293	26,302,910	3,400,383	12.93%
Number of executed transactions	1,956	3,024	-1,068	-35.02%
Highest sharing price/US$	2.40	2.13	0.27	12.68%
Closing price at year end/US$	1.88	2.12	-0.24	-11.32%

Board member expenses in 2018

Name	Number of Board Meetings	Attended	Attendance Percentage	Rewards	Attendance remuneration of Board and committees meetings	Travel and Transport Remuneration	Total / US$
Akram Abdullatif Jerab	6	6	100%	50,000	6,341	1,885	58,227
Duraid Akram Jerab	6	6	100%	25,000	23,950	5,552	54,502
Palestinian Pension Commission represented by Dr. Ahmad Abdel Salam Majdalani	6	4	67%	16,667	16,138	1,940	34,744
Walid Najib Al-Ahmad	6	6	100%	25,000	16,784	2,293	44,078
'Ahed Fayeq Bseiso	6	6	100%	25,000	32,784	3,291	61,076
Al-Shurouq Real Estate and Financial Investments Company (represented by Mr. Ibrahim Abdel Fattah Abu Dayyeh) joined on 18/3/2018	6	4	67%	16,667	9,138	2,586	28,391
Jordan Kuwait Bank Company (represented by Mr. Haitham Al-Battikhi) joined 26/7/2018	6	2	33%	8,333	2,138	497	10,968
Ruba Masrouji Alami	6	6	100%	25,000	10,138	647	35,784
Palestinian Investment Fund (represented by Mr. Lu'ay Bishara Qawwas) resigned on 18/3/2018	6	1	17%	4,167	2,000	-	6,167
Saleh Jabr Ahmad Ihmaid	6	6	100%	25,000	6,000	3,371	34,371
Hamed Abd-al-Ghani Jabr	6	5	83%	20,833	7,000	2,078	29,911
Muntassir Abu Dawas	6	6	100%	25,000	24,936	497	50,433
Majed Awni Abu Ramadan	6	6	100%	25,000	6,000	1,928	32,928
Total expenses				291,667	163,349	26,563	481,578
Value added tax				46,667	26,136	-	72,802
Total board expenses inclusive of value added tax				338,333	189,484	26,563	554,381
Remuneration amount and reserved expenses within the budget in the income statement							582,797
Reserve surplus							28,417

The board holds 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 24th general assembly meeting

- Reading the board's report for fiscal year ending on December 31, 2018, and approving it.
- Reading the auditor's report for fiscal year ending on December 31, 2018, and discussing and approving the financial statements for fiscal year ending on December 31, 2018.
- Clearing members of the Board of Directors for the fiscal year ending on December 31, 2018.
- Approving the dispensation of the board member remuneration for 2018.
- Electing the external auditors for 2019 and delegating the board with setting their fees.
- Approving the board's recommendation to distribute cash returns to shareholders of 5.6% of the paid capital, amounting to US$4,679,957.
- Approving the board's recommendation to capitalize the amount of US$6,602,083 and include it in the capital and distributing free shares by 7.9% to shareholders, each according to their share in line with the law.

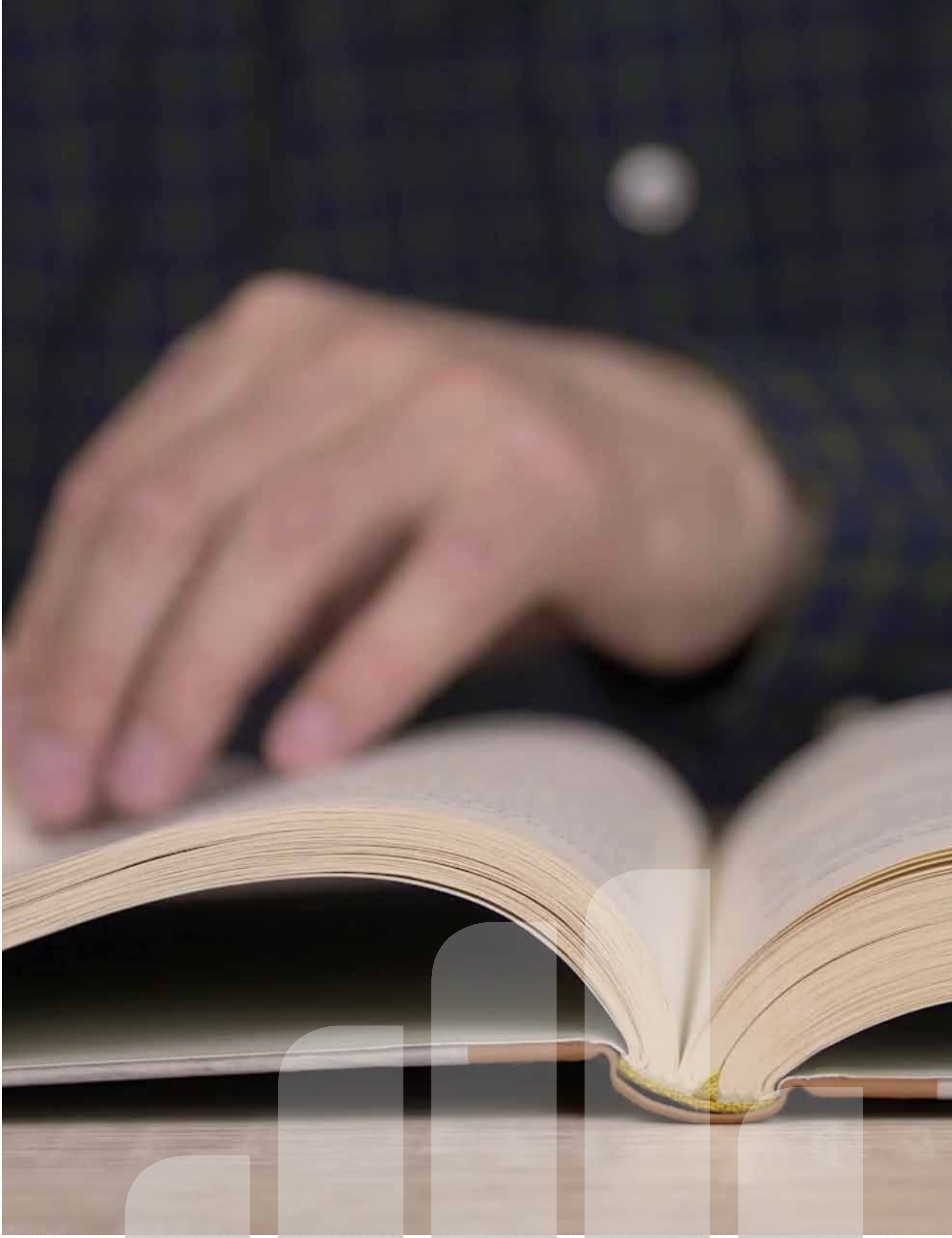
Board's Declarations

In line with the disclosure instructions issued by 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 the financial statements for year 2018, 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 2018.
- 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 the Basel committee recommendations regarding corporate governance, in addition to the best practices guide for banks' 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 its annual report on the bank's website and 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 Palestinian laws 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:

- Oversees the bank's overall operations, and he shall be responsible before the board for overseeing and monitoring the progress of bank's operations, following up on the implementation of the policies set by the board to achieve the bank's goals and objectives, in addition to following up and evaluating the bank's general performance in accordance with the strategies, plans, goals, policies, and approved budgets by the board.
- Ensures a secure and highly efficient governing controls at the bank, and establishes and maintains good constructive relations on the basis of 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, encourages the sharing of opinions among board members during meetings, and ensures the delivery 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 pro-

cedures, as well as 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 compliance with all rules, laws and regulations. Board members avoid activities that may expose them to conflicts 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.
- The board determines the appetite for risk at the bank and ensure its compliance with strategic goals, the capital and financial plans, and the rewards and incentives practices, and spreads the framework of the risk appetite on all bank levels through the development of a risk appetite document that enables all parties to understand it easily.
- Creates regulatory responsibilities for the purpose of efficient and active coordination among the work units so that there are no gaps in internal controls and to ensure the absence of duality of tasks (known as the Three Lines of Defense model).
- The board, in partnership with executive management and the risk official, must develop a framework for the risk appetite at the bank and put in place the necessary procedures to ensure compliance and monitoring, inclusive of risk governance imbued with a strong culture for risk and risk management, in addition to good determination of risk management responsibilities and internal control jobs.

4. Board's Working Mechanism

- Periodic meetings are held in accordance with the applicable rules and regulations at least once every two months, and the main subjects in the agenda of every meeting are clarified to ensure coverage of all topics.
- The bank provides the board with sufficient information prior to meetings to enable them to make the right decisions. Drafts of the minutes of each meeting that are signed by all members of the board, and 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 for 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 in order for it to perform its duties in a highly transparent and 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 presented in the annual report. Each committee has the right to contact the executive management directly through the chairman and the general manager.
- The board has four main committees which are the executive, the audit, the risk and compliance, and the corporate governance and remunerations committees. Their responsibilities are determined by the board in accordance with applicable laws and regulations; furthermore, other specialized committees can be formed by 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 board members were elected to the Executive Committee to ensure the executive management's adherence with the credit and investment policies, and the given authorities 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 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, Engineer Walid Al-Ahmad, Saleh Jabr Ihmaid, and Ruba Masrouji.

The committee undertakes the following main duties:

- 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 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 Palestinian Monetary Authority regulations in addition to giving recommendations related to writing off these debts.
- Presenting periodic reports to the Board of Directors regarding the conditions of the credit portfolio in terms of its size, developments, classified facilities, provisions reserved to face any losses, the collections department's efforts, the bank's investment portfolio, and any changes regarding these investments.

B. Audit Committee

Three of the non-executive board members were elected to 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 minutes of meetings are prepared in an appropriate manner. The committee performs its responsibilities and duties according to Palestinian Monetary Authority 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 committee undertakes the following main duties:

- 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.
- Reviewing comments stated in the reports of the Palestinian Monetary Authority and of the internal and external auditors and following up relevant measures adopted in this regard.
- Ensuring sufficient and efficient internal audit procedures and ensuring the bank's adherence to laws, 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, Palestinian Monetary Authority requirements and all rules for adequate reserves.
- Providing the required independence for the Audit Department so it can perform its duties. It also approves the election of the manager of the Audit Department or terminates their 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 fulfill 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 minutes of meeting are prepared in a proper manner. The committee performs its responsibilities and duties according to Palestinian Monetary Authority regulations, best practices and the Basel banking supervisory committee. The committee has the right to invite whoever they deem appropriate. It is headed by Muntaser Dawwas, and the members are Ahed Bseiso and Ibrahim Abu Dayyeh.

The committee undertakes the following main duties:

- Reviewing the risk management policies and strategies, for all types of risk that bank may face such as credit, market, operational, liquidity, credit concentrations, 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's 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 rapidly changing and complicated developments occurring in the bank's Risk Department, and for reporting this peri-

odically 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 procedure 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 sound banking 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 qualified with the required legal and banking expertise. Meetings are held semi-annually and are headed by Ahed Bseiso, and members are Hamed Jabr and Ibrahim Abu Dayyeh.

The committee undertakes the following main duties:

- Supervising the implementation of the governance policy by working with the management and the Audit Committee.
- Providing the board with reports and recommendations based on the results achieved by performing its tasks, inclusive of evaluating the level of adherence to the bank's governance guide and its proposals for amending the guide so that it complies with best practices.
- Preparing and reviewing the bank's institutional governance guide according to laws, regulations, and instructions issued in this regard.
- Setting the necessary measures to verify the implementation of and adherence to the items in this guide.
- Monitoring all related developments and updates in this regard.
- Reviewing the guide annually and ensuring it is distributed at the largest scale possible.
- Ensuring that executive management performs its duties in regard to 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 Remunerations and Rewards 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 periodic meetings attended by the general manager or his deputy, and minutes of meeting are prepared in a proper manner. It is headed by Ahed Bseiso and members are Hamed Jabr and Ibrahim Abu Dayyeh

The committee undertakes the following main duties:

- 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:

a. 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.

b. 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 any candidate for a membership in any committee with a vacancy.
- Overseeing the human resources policies 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, members of the board, 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, 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 delivery of information to decision-makers in a timely manner including the emergency plan.
- The independency of audit, compliance and risk management departments.

A. Internal Audit Department

The bank recognizes that an effective Internal Audit Department, which is considered the third line of defense at the bank, contributes to a qualitative added value to the bank and improves its operations. It also aids the bank in achieving its goals of creating an organized system to assess and improve the efficiency of governance, risk management and internal audit operations.

The following are the Internal Audit Department's objectives and duties:

- Creating a code of conduct for the internal audit to be approved by the board defining the responsibilities and roles of the department.
- Preparing an annual audit plan based on risk and approved by the board's Audit Committee.
- 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 in order to limit the risks related to them.
- Preparing periodic reports regarding the adequacy of internal control and monitoring systems to limit risks to which the bank is exposed and upgrade the audit environment to satisfactory levels.
- The Internal Audit Department reports to the higher management and the Audit Committee.

B. Compliance Department

The Compliance Department was established as an independent department to reinforce the commitment and adherence of the bank to 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 about 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 following is the general framework of Compliance Department:

- Preparing the compliance guide, 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 relevant guidelines and evidences.
- Periodically reporting to the board's Risk and Compliance Committee regarding its results and compliance monitoring activities.
- Evaluating and monitoring of the bank's compliance with corporate governance.
- Monitoring the bank's compliance with FATCA.

C. 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 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:

- Establish an AML and Anti-terror Financing Department and hire qualified employees.
- Adopt two systems that reinforce monitoring and control of accounts, detailed as follows:

a. 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.

b. An automated system specialized in AML and anti-terror financing activities that examines and monitors all financial transactions executed in client accounts to discover suspect processes and put an end to them to protect the bank against the misuse of its financial system and prevent AML and terror financing.

D. Risk Management Department

The bank prioritizes Basel committee requirements and the instructions of the Palestinian Monetary Authority as a framework for 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 adopted 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 has also 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 the 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:

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

- Approving methods that support risk management such as:
- Self-assessment of risks and placing risk indicators.
- Preparing a historical database of losses, determining their sources and categorizing them according to type of risk.
- Providing necessary equipment and automated systems for the bank's risk management.

- 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.
- Including in the bank's annual report information about the risk management relevant to the structure and nature of its operations and their updates.
- Providing necessary information regarding risks to which the bank is exposed, for publishing and disclosure purposes.

E. External Audit

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 regards to 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 is involved with other institutions.

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. Adhering to the minimum requirements of financial statement 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.
- Verifying fair presentation of financials provided to it during the audit process.

F. 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.

G. 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.

H. 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 SHAREHOLDING COMPANY LTD.

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

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Deloitte.

Deloitte & Touche (M.E.)
Al Mashreq Insurance Building
Al-Nahda Area, Al Masyoun
Ramallah, P.O. Box 447
Palestine

Tel: +970 (0) 2 298 0048
Fax: +970 (0) 2 295 9153
www.deloitte.com

Independent Auditors' Report

To the Shareholders of Quds Bank

Public Shareholding Company, Ltd.

State of Palestine

Report for Auditing the Financial Statements

Opinion

We have audited the accompanying financial statements of Quds Bank "a Public Shareholding Company LTD. "The Bank", which comprises the statement of financial position as at December 31, 2018, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Quds Bank "Public Shareholding Company LTD." as at December 31, 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Banks' financial statements in Palestine, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The financial statements for the year ended December 31, 2018 were audited by another auditor who issued his unqualified report on the audit of the financial statements on 18 March 2018.

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 for the year ended. 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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Independent Auditors' Report (Continued)

Key Audit Matter

Application of IFRS (9)

The International Accounting Standards Board issued IFRS (9)" financial Instruments", which replaces IAS (39).

The Bank has adopted IFRS (9) effective from January 1, 2018 retroactively without restating the comparative figures in accordance with the above standard.

The differences between the previously recorded carrying values and the new carrying values of the financial instruments amounting to USD 10,910,474 were recognized as at 1 January 2018 in the opening balance of the general risk banking reserve and the retained earnings.

The major changes resulting from the adoption of IFRS (9) are that the Bank's credit losses are currently based on the expected losses approach instead of the loss incurred and the change in the classification and measurement of the Bank's financial assets and liabilities.

How did our audit process address the key audit matter?

We have understood with the Bank's policy for the classification and measurement of financial assets and liabilities in accordance with IFRS 9 and have compared them with the requirements of IFRS (9) and the regulatory instructions in this regard.

We also understood the Bank's Expected Credit Losses (ECL) model adopted by the Bank through the use of experts, wherever appropriate, to satisfy ourselves about these data, which included several items, the most important of which are:

• Reviewing the Bank's expected credit loss provision policy in accordance with IFRS 9.

• Identification of the significant increase in credit risk.

• Classification of credit exposures to various stages, through testing of a sample of credit facilities granted by the Bank.

• Understanding the key data sources and assumptions for the data used in the ECL models to determine the ECL provisions and the forecast assumptions used in calculating their ECL.

• Reviewing the amount of exposure when defaulted for a sample of exposures.

• Review the probability of default in the calculation of ECL, which calculated based on several economic cycles with the information declared and appropriate, and turn it into the possibility of default in accordance with a specific economic cycle.

• Reviewing the calculation of ECL in case of default in use, including the adequacy of collateral and consequential calculations

• Reviewing the completion of credit facilities, investment securities and deposits used in the calculation of the ECL as of 1 January 2018.

The accounting policies, accounting estimates and credit risk management disclosures are presented in notes 3, 7 and 44 to the financial statements.

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Independent Auditors' Report (Continued)

Other information

Management is responsible for other information. Other information consists of information provided in the annual report other than the financial statements and the auditor's report thereon. We expect that the annual report will be available to us after the date of this auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any kind of assurance or conclusion theron.

In connection with our audit of financial statements, our responsibility is to read the other information identified above when it becomes available to us and assessing whether the other information is materially inconsistent with the financial statements or our knowledge obtained through our audit or the other information appear to be material misstated.

Responsibilities of Management and Those Charged with Governance for the Bank's Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Banks' 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 entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Banks' 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 International Standards on Auditing (ISAs) will always detect a material misstatement when it exist. 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 made by users based on these financial statements.

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Independent Auditors' Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with International Standards on Auditing (ISAs), we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 disclosure is 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.
- Obtain sufficient and appropriate audit evidence about the Bank's financial information and business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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 management and 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.

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Independent Auditors' Report (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 year and are therefore the key audit matters. We describe these matters in our auditor's report, unless law and regulations preclude 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.

Report on Other Legal and Regulatory Requirements

The Bank maintains proper accounting entries and records, which are in accordance with the accompanying financial statements and with the financial statements mentioned in the Board of Directors' Report. We recommend to the General Assembly of the shareholders to approve these financial statements.

Deloitte & Touche (Middle East)
License # (208)

Munther Al-Bandak
Partner
License # (114/2015)

Ramallah - Palestine
March 28, 2019

Quds Bank – Public Shareholding Company LTD.

Statement of Financial Position

As at December 31, 2018

	Notes	2018 USD	2017 USD
Assets			
Cash and balances at Palestine Monetary Authority	5	**252,146,806**	257,491,000
Balances at banks and financial institutions	6	**160,803,286**	71,970,257
Direct credit facilities -Net	7	**697,803,505**	658,517,963
Financial assets at fair value through statement of income	8	**90,506**	103,260
Financial assets at fair value through other comprehensive income	9	**5,663,480**	3,058,329
Financial assets at amortized cost	10	**18,453,012**	9,409,145
Investments in associate	11	**1,433,126**	--
Property, plant and equipment -Net	12	**32,584,888**	30,278,332
Intangible assets	13	**2,416,216**	22,481
Projects under construction		**3,718,633**	3,067,092
Other assets	14	**37,911,670**	41,711,675
Total Assets		**1,213,025,128**	1,075,629,534
Liabilities and Equity			
Liabilities			
Palestine Monetary Authority deposits	15	**40,576,000**	67,336,229
Banks and financial institutions' deposits	16	**66,011,852**	15,559,926
Customers' deposits	17	**877,678,532**	785,970,046
Cash margins	18	**81,449,260**	69,378,880
Borrowings funds	19	**294,778**	381,688
Tax provision	20	**1,952,704**	2,051,998
Sundry provisions	21	**6,063,694**	5,163,104
Other liabilities	22	**27,555,199**	27,056,989
Total Liabilities		**1,101,582,019**	972,898,860
Equity			
Paid-in capital	23	**83,570,667**	68,376,000
Share Premium	25	**6,602,083**	--
Statutory reserve	26	**7,607,752**	6,448,168
General banking risks reserve	26	**3,182,400**	10,264,820
Procyclicality reserve	26	**4,757,269**	4,757,269
Fair value reserve	9	**(2,603,012)**	(2,782,374)
Retained earnings	27	**8,325,950**	15,666,791
Total Equity		**111,443,109**	102,730,674
Total Liabilities and Equity		**1,213,025,128**	1,075,629,534

Mr. Akram Jerab Chairman of Board of Directors	**Mr. Salah Hadmi** **Chief Executive Officer**	**Mr. Mohammad Salman** **Senior Vice President** **Director of Finance**

The accompanying notes are integral part of these financial statement

Quds Bank – Public Shareholding Company LTD.

Statement of Income

For the year ended December 31, 2018

	Notes	2018 USD	2017 USD
Interest income	28	**51,473,309**	46,251,723
Interest expense	29	**(13,201,982)**	(11,569,449)
Net interest income		**38,271,327**	34,682,274
Net Commissions income	30	**10,479,221**	9,996,979
Net interest and commissions income		**48,750,548**	44,679,253
Gain from Foreign currency exchange		**7,619,855**	5,442,845
Gains from financial assets	31	**71,830**	526,091
Recovery of provision for impairment of credit facilities	7	**2,887,520**	2,010,941
Net recoveries and transfers from provision for impairment of credit from Stage I and Stage II	7	**3,428,289**	--
Other income	32	**867,506**	1,019,268
Gross Income		**63,625,548**	53,678,398
Expenses			
Personnel expenses	33	**(19,142,966)**	(17,817,430)
Other operating expenses	34	**(13,729,800)**	(12,702,999)
Depreciation and amortization	12,13	**(2,840,766)**	(2,597,551)
Expected credit loss / direct facilities	7	**(10,977,417)**	(3,853,804)
Expected credit loss / other		**(80,033)**	--
Provision for end of service indemnity	21	**(1,517,095)**	(1,580,570)
Loss from investment in associate	11	**(136,237)**	--
Provision for lawsuits	21	--	(38,530)
Provision for impairment in property	14	**(35,534)**	--
Palestine Monetary Authority fines	41	**(21,157)**	(7,052)
Total expenses		**(48,481,005)**	(38,597,936)
Profit before taxes		**15,144,543**	15,080,462
Tax expense	20	**(3,548,702)**	(3,900,000)
Profit for the year		**11,595,841**	11,180,462
Basic and diluted earnings per share for the year	42	**0.149**	0.164

Mr. Akram Jerab Chairman of Board of Directors	**Mr. Salah Hadmi** **Chief Executive Officer**	**Mr. Mohammad Salman** **Senior Vice President** **Director of Finance**

The accompanying notes are integral part of these financial statements

Quds Bank – Public Shareholding Company LTD.
Statement of Income and Other Comprehensive Income
For the year ended December 31, 2018

	2018 USD	2017 USD
Profit for the year	**11,595,841**	11,180,462
Other comprehensive income items:		
Items that will not be reclassified subsequently to statement of income		
Change in fair value of financial assets through comprehensive income (Note 9)	**(94,482)**	2,482,923
Net comprehensive income for the year	**(94,482)**	2,482,923
Total comprehensive income for the year	**11,501,359**	13,663,385

The accompanying notes are integral part of these financial statements

Quds Bank – Public Shareholding Company LTD.

Statement of Changes in Equity

For the year ended December 31, 2018

	Paid-in capital USD	Share Premium USD	Statutory Reserve USD	General Banking risks Reserve USD	Procyclicality Reserve USD	Fair value Reserve USD	Retained earnings USD	Total USD
December 31,2018								
Balance as at 1 January 2018 (before adjustment)	**68,376,000**	**-**	**6,448,168**	**10,264,820**	**4,757,269**	**(2,782,374)**	**15,666,791**	**102,730,674**
Effect of Implementing of IFRS 9 - (Note 2)	**-**	**-**	**-**	**(10,264,820)**	**-**	**-**	**(645,654)**	**(10,910,474)**
Balance as at 1 January 2018 (after adjustment)	**68,376,000**	**-**	**6,448,168**	**-**	**4,757,269**	**(2,782,374)**	**15,021,137**	**91,820,200**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**11,595,841**	**11,595,841**
Changes in fair value	**-**	**-**		**-**	**-**	**(94,482)**	**-**	**(94,482)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(94,482)**	**11,595,841**	**11,501,359**
Gain from sale of financial assets recognized directly in retained earnings	**-**	**-**	**-**	**-**	**-**	**273,844**	**(273,844)**	**-**
Share issuance during the year (note 13,25)	**8,357,067**	**6,602,083**	**-**	**-**	**-**	**-**	**-**	**14,959,150**
Stock dividends (note 24)	**6,837,600**	**-**	**-**	**-**	**-**	**-**	**(6,837,600)**	**-**
Cash dividends (note 24)	**-**	**-**	**-**	**-**	**-**	**-**	**(6,837,600)**	**(6,837,600)**
Transferred to reserves	**-**	**-**	**1,159,584**	**3,182,400**	**-**	**-**	**(4,341,984)**	**-**
Balance as at December 31, 2018	**83,570,667**	**6,602,083**	**7,607,752**	**3,182,400**	**4,757,269**	**(2,603,012)**	**8,325,950**	**111,443,109**
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
Profit for the year	-	-	-	-	-	-	11,180,462	11,180,462
Changes in fair value	-	-	-	-	-	2,482,923	-	2,482,923
Total comprehensive income for the year	-	-	-	-	-	2,482,923	11,180,462	13,663,385
Gain from sale of financial assets recognized directly in retained earnings	-	-	-	-	-	(6,999,481)	6,999,481	-
Stock dividends (note 24)	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

The accompanying notes are integral part of these financial statements

Quds Bank - Public Shareholding Company LTD.
Statement of Cash Flows
For the year ended December 31, 2018

	Notes	2018	2017
Operating activities		**USD**	USD
Profit before tax		**15,144,543**	15,080,462
Adjustments:			
Depreciation and amortization	12,13	**2,840,766**	2,597,551
Expected credit loss / direct facilities	7	**10,977,417**	3,853,804
Recovery of Provision for impairment of direct credit facilities	7	**(2,887,520)**	(2,010,941)
Net recoveries and transfers from provision for impairment of credit from Stage I and Stage II	7	**(3,348,256)**	-
Provision for end of service indemnity	21	**1,517,095**	1,580,570
Provision for lawsuits	21	**-**	38,530
Loss from investment in associate	11	**136,237**	-
Unrealized Loss (gains) from revaluation of financial assets at fair value through statement of income	31	**12,754**	(6,440)
Provision for impairment in property	14	**35,534**	-
Loss from disposal of property, plant and equipment		**120,954**	36,320
Cash flow from operating activities before changes in operational assets and liabilities		**24,549,524**	21,169,856
(Increase) statutory reserve at Palestine Monetary Authority		**(10,983,097)**	(5,537,895)
Decrease / (Increase) direct credit facilities		**(35,303,613)**	(44,220,467)
Decrease / (Increase) other assets		**4,133,861**	(5,653,163)
Increase in customer's deposits		**31,521,975**	49,889,522
Increase in cash margins		**10,258,791**	27,795,791
Increase in other liabilities		**(614,458)**	4,456,672
Cash flows from operating activities before paid taxes and provisions		**23,562,983**	47,900,316
End of service indemnity paid	21	**(623,999)**	(952,550)
Provision for lawsuits paid	21	**-**	(41,297)
Taxes paid	20	**(3,647,996)**	(2,009,674)
Net cash flows from operating activities		**19,290,988**	44,896,795
Investing activities			
Banks and financial institutions deposits (more than 3 months)		**(7,052,186)**	-
Change in financial assets through statement of comprehensive income		**4,724,620**	11,786,761
Investments in associate		**(1,569,363)**	-
Financial assets at amortized cost		**(9,125,800)**	1,773,310
Purchase of intangible assets	13	**(35,151)**	-
Cash generated from the acquisition of Jordan Kuwait Bank - Palestine Branches	13	**46,569,066**	-
Addition in property and equipment and change in projects under construction		**(4,395,149)**	(5,735,275)
Proceeds from disposal of property and equipment		**380,840**	225,034
Net cash flows generated from investing activities		**29,496,877**	8,049,830
Financing activities			
Borrowed funds		**(86,910)**	(208,867)
Cash dividends	25	**(6,837,600)**	-
Net cash flows (used in) financing activities		**(6,924,510)**	(208,867)
Net increase in cash and cash equivalents		**41,863,355**	52,737,758
Cash and cash equivalents, beginning of the year		**173,877,257**	121,139,499
Cash and cash equivalents, end of the year	39	**215,740,612**	173,877,257

The accompanying notes are integral part of these financial statements

Quds Bank – Public Shareholding Company LTD.

Notes to the Financial Statements
For the year ended December 31, 2018

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 commenced its activities in Palestine on January 18, 1997. The Bank's shares were listed for trading in Palestine Exchange Market in the year 2005. The Bank is subject to the Banks Law and the instructions of the Palestine Monetary Authority (PMA). From 2005 to 31 December 2018, the Bank increased its capital to reach an issued and fully paid-in capital of USD 83,570,667 divided into 83,570,667 shares of USD 1 per share.

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 (25) branches in Palestine, in addition to (14) offices as at December 31, 2018.

The number of the Bank's employees (Headquarter and branches) as of December 31, 2018 was (762) employees against (728) employees as at December 31, 2017.

The accompanying financial statements have been approved by the Board of Directors of the Bank in its meeting held on February 10, 2019 and are subject to the approval of the Palestine Monetary Authority and Shareholders' General Assembly.

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRS applicable to the financial statements for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these financial statements.

	Application Date
IFRS 9 "Financial Instruments"	01 January 2018
IFRS 15 "Revenue from Contracts with Customers"	01 January 2018
Annual improvements to IFRSs issued between 2014 and 2016.	01 January 2018
IFRIC 22: "Foreign currency transactions and advance Consideration ".	01 January 2018
Amendments to IAS 40: "Investment properties".	01 January 2018
Amendments to IFRS 2 "Share-based Payment".	01 January 2018
Amendments to IFRS 4: "Insurance contracts".	01 January 2018
Amendments to IFRS 1 "Presentation of Financial Statements".	01 January 2018
Amendments to IFRS 7 "Financial Instruments".	01 January 2018

2. Application of new and revised International Financial Reporting Standards (IFRS). (Continued)

2.1 New and revised IFRS applicable to the financial statements for the current year. (Continued)

The application of the mentioned above has not resulted in any changes to the banks' net profit or equity of the previously recorded except as described below.

(1) IFRS 9 "Financial Instruments

The Bank has adopted IFRS 9 (as revised in July 2014) on the specified transition date as at January 1, 2018, resulting in changes in accounting policies and adjustments to amounts previously recognized in the financial statements as at and for the year ended 31 December 2017.

The adoption of IFRS 9 resulted in changes in accounting policies for the identification, classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 also substantially modifies the standards that address financial instruments such as IFRS 7, "Financial Instruments: Disclosures."

Effect of application of IFRS 9

The following is the effect on the realization of expected losses arising from the application of IFRS 9 as of January 1, 2018:

	Balance under IAS 39 USD	Balance under IFRS 9 USD	Effect USD
Balances at banks and financial institutions	71,970,257	71,893,709	(76,548)
Direct credit facilities	658,517,963	647,853,155	(10,664,808)
Financial assets at amortized cost	9,409,145	9,377,718	(31,427)
Contingent liabilities	68,779,478	68,641,787	(137,691)
As adjusted for the following opening balances:			(10,910,474)
- The retained earnings *	15,666,791	15,021,137	(645,654)
- General banking risk reserve *	10,264,820	-	(10,264,820)

* As permitted by IFRS 9 and PMA regulations, the impact of the ECL on the general bank risk reserve and retained earnings as at January 1, 2018 has been adjusted. The accounting policies of IFRS 9 are explained in Note (3) significant accounting policies. There was no change in the Bank's accounting policies when applying the Standard except for the ECL accounting policies.

2. Application of new and revised International Financial Reporting Standards (IFRS). (Continued)

2.1 New and revised IFRS applicable to the financial statements for the current year. (Continued)

(2) IFRS 15, "Revenue from contracts with customers"
The Bank has implemented this new recognition standard effective 1 January 2018. IFRS 15 provides an approach based on principles for the recognition of revenue and introduces the concept of recognition of revenue to perform obligations when they are met. The Bank has assessed the impact of the IFRS 15 and concluded that the standard does not have material impact on bank financial statements.

2-2 Accounting Standards issued and not Effective
A number of standards and amendments have been issued to the Standards but are not yet effective and have not yet been adopted by the Bank when preparing these financial statements
The following standards may have a material impact on the Bank's financial statements. However, the Bank is currently assessing the impact of these new standards. The Bank will apply these new standards to the relevant dates

International Financial Reporting Standards	Application Date
IFRS 16 - Leases	01 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle the amendments to IFRS 3 joint operation, the amendments to IFRS 11 joint business operation, the amendment to IAS 12 income tax and the amendment to IAS 23 borrowing cost.	01 January 2019
IFRIC 23 Uncertainty about income tax treatment.	01 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation.	01 January 2019
Amendment to IAS 19 - Employee Benefits of Adjusting, Reducing or Settling the Benefits Plan	01 January 2019
Amendment to IAS 28 Long-term Interests in Associates and Joint Ventures.	01 January 2019
Amendments to the Interpretative Frameworks in the International Financial Reporting Standards - Amendments to IFRS 2, IFRS 3, IFRS 6, International Financial Reporting Standard No. 14 and International Accounting Standard (1), IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, and IFRIC Interpretation No. (1) 20) and the interpretation No. (22), and interpretation No. (32) To update these views With regard to references to and quotations from the conceptual framework or to a different version of the conceptual framework.	01 January 2019
Amendments to IFRS 3 Business Combinations and Business Definition	01 January 2020
Amendments to IAS 1 and No. 8 relating to the definition of materiality	01 January 2020
IFRS 17, Insurance Contracts	01 January 2021

2.Application of new and revised International Financial Reporting Standard (IFRS). (Continued)

2-2 Accounting Standards issued and not Effective (Continued)

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	To be endorsed by the IASB, however, earlier application is permitted

Management anticipates that these new and revised standards, interpretations and amendments will be adopted in the Banks' financial statements when they are applicable, and adopt these new standards, interpretations and amendments, except for IFRS 16 as described in the following paragraphs.

International Financial Reporting Standard No. 16

The Bank will adopt IFRS 16 "Leases" at the effective date from January 1, 2019. This standard will result in the recognition of leases in the statement of financial position by lease where the operating and finance leases are distinguished.

According to this Standard, the asset (the right to use the leased item) and the financial obligation to pay the rent will be recognized. The only exceptions are short-term and low-value leases. The Bank intends to apply the transition approach and does not expect restate the comparative figures for the year preceding the initial adoption. The management intends to undertake detailed procedures during 2019 for the impact of the application of this standard and expects the impact to be immaterial.

3. Summary of significant accounting policies

3.1 Statement of Compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the instructions of the Palestine Monetary Authority.

3.2 Basis of Preparation

The accompanying financial statements have been prepared on the historical cost basis except for certain financial instruments measured at revalued amounts or at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account these factors when pricing the asset or liability at the measurement date. The fair value for measurement and / or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but not fair value, such as the value used in IAS 36.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the assets or liability.

The accompanying financial statements include the financial statements of the branches of the Bank (West Bank and Gaza) 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 as of December 31, 2018 and December 31, 2017 are included under other assets and other liabilities in the accompanying statement of financial position.

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

2. Summary of significant accounting policies (Continued)

3.3 Financial Instruments

Accounting policies used in applying IFRS 9

Initial recognition and measurement:

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument. Customers' loans and advances are recognized when recorded to the customer's account.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs related to the costs of acquisition of financial assets or financial liabilities are recognized at fair value through profit or loss directly to the statement of income.

If the transaction price is different from the fair value at initial recognition, the Bank treats this difference as follows:

- If fair value is determined at an active market price for identical assets or liabilities or on a valuation method that uses only observable inputs in the market, it recognizes the difference in profit or loss on initial recognition.
- In all other cases, fair value is adjusted to the transaction price.

After initial recognition, the deferred gain or loss will be recorded in the statement of income on a rational basis, only to the extent that a change in factor is taken into account by the market participants when pricing the asset or liability or when the recognition is derecognized.

Financial Assets

Initial Recognition

All regular purchases or sales of financial assets are recognized and derecognized on the trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value.

Subsequent measurement

Measurement of all recognized financial assets within the scope of IFRS 9 requires subsequent measurement at amortized cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Specifically:

• Financing instruments held in the business model intended to collect contractual cash flows that have contractual cash flows that are only principal and interest payments on the principal outstanding and are subsequently measured at amortized cost;

• Financing instruments held in the business model that are intended both for the collection of contractual cash flows and for the sale of debt instruments, which have contractual cash flows that are only principal and interest payments on the principal outstanding and are subsequently measured at fair value through other comprehensive income;

• All other financing instruments (such as debt instruments managed at fair value or held for sale) and equity investments are subsequently measured at fair value through statement of income.

However, the Bank may make an irrevocable choice / determination after initial recognition of the financial asset on an individual basis as follows:

• The Bank may make an irrevocable choice to include subsequent changes in the fair value of the investment in equity not held for trading or potential replacement recognized by the acquirer in the business combination that IFRS 3 applies to other comprehensive income; And

• The Bank may determine in a non-cancellable manner the financing instruments that meet amortized cost or fair value through other comprehensive income and are measured at fair value through statement of income if it significantly eliminates or reduces the accounting mismatching (referred to as the fair value option).

Debt instruments at amortized cost or at fair value through other comprehensive income

The Bank evaluates the classification and measurement of the financial asset based on the characteristics of the contractual cash flows and the business model of the Bank to manage the asset.

For an asset that is classified at amortized cost or at fair value through other comprehensive income, its contractual terms should result in cash flows that are only principal and interest payments on the principal outstanding.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

For the purpose of testing principal and interest payments on the principal amount (SPPI), the asset is the fair value of the financial asset at initial recognition. This principal amount may change over the life of the financial asset (for example, if there is a principal repayment). Interest consists of the allowance for the time value of money, the credit risk associated with the original amount outstanding over a given period of time, and other basic lending options and risks, as well as the profit margin. An assessment of principal and interest payments is made to the principal amount outstanding in the currency denominated in the financial asset.

Contractual cash flows representing principal and interest payments are on the principal outstanding and are consistent with the underlying financing arrangement.

Contractual terms involving exposure to risks or fluctuations in contractual cash flows unrelated to the underlying financing arrangement, such as exposure to changes in equity prices or goods prices, do not result in contractual cash flows that are only from principal and interest payments. A financial asset granted or acquired may also be the primary financing arrangement regardless of whether it is a loan in its legal form.

Evaluation of business model

Evaluation of business models for the management of financial assets is essential for the classification of financial assets. The Bank identifies business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not rely on management intentions in relation to an individual instrument, and therefore the business model is evaluated at a group level and not on an individual basis.

The Bank adopts more than one business model to manage its financial instruments that reflect how the Bank manages its financial assets to generate cash flows. The Bank's business models determine whether cash flows will result from the collection of contractual cash flows or the sale of financial assets or both.

The Bank takes into account all relevant information available when conducting an evaluation of the business model. However, this assessment is not made on the basis of scenarios that the Bank does not reasonably expect, such as the so-called "worst case" or "stress" scenarios. The Bank also takes into account all relevant evidence available, such as:

• The stated policies and objectives of the portfolio and the application of those policies to whether the management strategy focuses on obtaining contractual revenues, maintaining a specific profit rate, matching the period of financial assets with the period of financial liabilities that finance such assets or achieving cash flows through the sale of assets.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

- How to evaluate the performance of the business model and financial assets held in this business model and to report to key management personnel;

- Risks affecting the performance of the business model (and the financial assets of that model), in particular the manner in which such risks are managed;

- How to compensate business managers (for example, whether compensation is based on the fair value of the assets managed or on the contractual cash flows received).

Upon initial recognition of the financial asset, the Bank determines whether the newly recognized financial assets are part of an existing business model or whether they reflect the beginning of a new business model. The Bank re-evaluates its business models in each reporting period to determine whether business models have changed since the prior period.

When a debt instrument measured at fair value through other comprehensive income is derecognized, the cumulative gain / loss previously recognized in other comprehensive income is reclassified the statement of income. On the other hand, for equity investments measured at fair value through other comprehensive income, the cumulative gain / loss previously recognized in other comprehensive income is not subsequently reclassified to the statement of income but transferred directly to equity.

Debt instruments that are subsequently measured are carried at amortized cost or at fair value through other comprehensive income for impairment testing.

Financial assets at fair value through statement of income are:

- Assets with contractual cash flows that are not principal and interest payments on the principal outstanding; and / or
- Assets held in a business model other than those held to collect contractual cash flows or held for collection and sale; or
- Assets classified at fair value through statement of income using the fair value option.

These assets are measured at fair value, with any gain / loss arising on re-measurement recognized in the statement of income.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Re-classification

If the business model in which the Bank retains financial assets is changed, the financial assets that have been affected are reclassified. The classification and measurement requirements relating to the new class are effective from the first day of the first reporting period after the change in the business model resulting in the reclassification of the Bank's financial assets. Changes in contractual cash flows are considered in the accounting policy for the adjustment and disposal of the financial assets described below.

Foreign exchange gains and losses

The carrying amount of financial assets recorded in foreign currency is determined and translated at the rate prevailing at the end of each reporting period. Specifically:

• For financial assets measured at amortized cost that are not part of a specific hedging relationship, it recognizes the currency differences in the statement of income;

• For debt instruments measured at fair value through other comprehensive income that are not part of a specific hedging relationship, exchange differences are recognized on the amortized cost of the debt instrument in the income statement. Other exchange differences in other comprehensive income are recognized in the investment revaluation reserve.

• For financial assets measured at fair value through statement of income that are not part of a specific hedging relationship, it recognizes the exchange differences from profit or loss in the statement of income;

• With respect to equity instruments measured at fair value through comprehensive income, exchange differences in other comprehensive income are recognized in the investment revaluation reserve.

Fair value option

A financial instrument with a fair value that can be reliably measured at fair value through statement of income (fair value option) can be classified at initial recognition even if the financial instruments are not acquired or incurred basically for the purpose of selling or repurchasing. The fair value option may be used for financial assets if it significantly eliminates or significantly reduces the measurement or recognition inconsistency that would otherwise have resulted in the measurement of the asset or liability or recognized the related gain or loss on a different basis ("accounting mismatching"). The fair value option for financial liabilities can be chosen in the following cases:

• If the selection leads to a significant cancellation or reduction of the accounting mismatch.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

- Financial liabilities are part of a portfolio managed on a fair value basis, in accordance with a documented risk management or investment strategy;

- If a derivative is included in the underlying financial or non-financial contract and the derivative is not closely related to the underlying contract.

These instruments cannot be reclassified from the fair value category through the statement of income while retained or issued. Financial assets at fair value through statement of income are recognized at fair value with any unrealized gain or loss arising from changes in fair value recognized in investment income.

Impairment

The Bank recognizes the expected provision for credit losses on the following financial instruments that are not measured at fair value through statement of income:

- Balances and deposits with banks and financial institutions.
- Direct credit facilities (loans and payments to customers).
- Financial assets at amortized cost (debt instruments).
- Off-balance sheet exposures are subject to credit risk.

Impairment losses on equity instruments are not recognized.

Except for financial assets acquired or impaired with a low credit value (which are taken into account separately below), the expected credit losses should be measured through a provision for impairment amounting to:

- The expected 12-month credit loss, the expected life of the expected credit losses resulting from those default events on financial instruments that can be achieved within (12) months after the reporting date, referred to as phase I; or
- Expected credit losses over the term of the facility, the expected life of the expected credit losses arising from all possible default events over the life of the financial instrument referred to in the second and third phases;

A provision for the expected long-term credit loss of a financial instrument is required if the credit risk on that instrument increases substantially since the initial recognition. For all other financial instruments, the expected credit loss is measured by an amount equivalent to the expected credit loss for a period of 12 months.

The expected credit losses are a possible weighted estimate of the present value of the credit loss. This value is measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank is expected to receive arising from the weighting of several future economic scenarios, discounted at the effective interest rate of the asset.

For unutilized ceilings, the expected credit losses are the difference between the present value the contractual cash flows payable to the

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Bank if the borrower withdraws the financing and cash flows that the Bank expects to receive if the financing is utilized;

For financial guarantee contracts, the expected credit losses are the difference between the expected payments to repay the secured debt instrument holder less any amounts the Bank expects to receive from the instrument holder, the customer or any other party.

The Bank measures expected credit losses on an individual or portfolio basis for loans that share similar economic risk characteristics. The measurement of the provision for loss is based on the present value of the expected cash flows of the asset using the original effective interest rate of the asset, regardless of whether it is measured on an individual or portfolio basis.

Impairment of Financial Assets

Financial assets at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected, the assets are indicate as financial assets in Stage 3.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for the financial asset because of financial difficulties.
- Purchasing financial assets with a major discount which impact credit losses incurred.

If a single event cannot be identified, instead, the combined effect of several events may cause the financial assets to turn into assets with a low credit value. The Bank assesses whether there has been a decline in credit facilities for debt instruments that represent financial assets measured at amortized cost or fair value through other comprehensive income at each reporting date. To assess whether there is a decline in creditworthiness in sovereign and corporate debt instruments, the Bank considers factors such as bond yields, credit rating and the borrower's ability to increase funding.

The loan is considered to be impaired when the borrower is granted a concession due to deterioration of its financial position, unless there is evidence that as a result of the concession, the risk of non-receipt of contractual cash flows has declined significantly, and there are no further indications of impairment. For financial assets where concessions are contemplated but not granted, the asset is considered to be impaired when there is clear evidence of credit impairment, including the definition of default. The definition of default includes indications of possible non-payment and discontinuation if the amounts are due for 90 days or more. However, cases where the asset's impairment is not recognized after 90 days of maturity are supported by reasonable information.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Financial assets acquired or created with low credit

Financial assets acquired or impaired are treated differently because the asset has a low credit value at initial recognition. In respect of these assets, the Bank recognizes all changes in the expected long-term credit loss since initial recognition as a provision for impairment and recognizes any changes in the statement of income. The positive change of such assets leads to impairment gains.

Defaults

The definition of default is very important in determining the expected credit loss. The definition of default is used to measure the expected loss of credit and to determine whether the provision for loss is based on the expected 12-month or lifetime loss, as default is a component of the probability of default; Both measuring the expected credit losses and determining the significant increase in credit risk below.

The Bank considers the following as an event of default:

- The borrower defaults for more than 90 days with respect to any important credit commitment to the bank;
- The borrower is unlikely to pay its full credit obligations to the bank.

The definition of default is designed to reflect the different characteristics of different types of assets. Overdrafts are payable as soon as the customer has breached a fixed limit or has been notified of a smaller amount than the outstanding amount outstanding.

In assessing whether the borrower is unlikely to pay its credit commitment, the Bank takes into account qualitative and quantitative indicators. The information used depends on the type of asset, for example in corporate lending. The qualitative indicator used is breach of covenants, which is not appropriate for retail lending. Quantitative indicators, such as late payment and non-payment of a counterparty's other obligation, are key inputs into this analysis. The Bank also uses various sources of information to assess defaults that are internally developed or obtained from external sources.

Significant increase in credit risk

The Bank monitors all financial assets, loan commitments issued and financial guarantee contracts that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there is a significant increase in credit risk, the Bank will measure the provision for loss on a life-long basis rather than the expected 12-month credit loss.

The Bank does not consider financial assets with "low" credit risk at the reporting date, for which there has been no significant increase in credit risk. As a result, the Bank monitors all financial assets, loan commitments issued and financial guarantee contracts that are subject to impairment for the significant increase in credit risk.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Significant increase in credit risk (Continued)

In assessing whether the credit risk on a financial instrument has increased substantially since initial recognition, the Bank compares the risk of default to the financial instrument at the reporting date based on the remaining maturity of the instrument with a risk of default for the remaining maturity period. The date of the current report when the financial instrument is recognized for the first time. In making such an assessment, the Bank considers both quantitative and qualitative information that is reasonable and likely to be reliable, including historical experience and future information available, based on the Bank's historical experience and evaluation of the credit expert, including future information available.

Multiple economic scenarios represent the basis for determining the probability of default on initial recognition and subsequent reporting dates. Different economic scenarios will result in a different probability of default. The weighting of the different scenarios is the basis of the weighted average probability of default that is used to determine whether the credit risk has increased significantly.

For corporate finance, forward-looking information includes the future prospects of the industries in which counterparties of the Bank operate, obtained from the reports of economic experts, financial analysts, government bodies, think tanks and other similar organizations, as well as taking into account the various internal and external sources of economic information Actual and projected. With regard to individual financing, forward-looking lending information includes the same economic expectations as institutional lending and additional forecasts for local economic indicators, especially for industry-specific areas, as well as internal information on customer behavior related to payment. The Bank allocates to its counterparties the degree of internal credit risk that is relevant based on its credit quality. Quantitative information is a key indicator of the significant increase in credit risk and is based on a change in the probability of default based on a change in the probability of default over a lifetime by comparing:

- The probability of remaining life-long defaults at the reporting date;
- Probability of life-long defaults remaining at this point from the time estimated on the basis of facts and circumstances at initial recognition of exposure.

The potential for default is forward-looking and the Bank uses the same methodologies and data used to measure the expected credit loss provisions.

The qualitative factors that indicate a marked increase in credit risk are reflected in the probability of default models in a timely manner. However, the Bank is still looking separately at some qualitative factors to assess whether the credit risk has increased significantly. Regarding corporate lending, there is a particular emphasis on the assets included in the "watch list" where exposure is included in the watch list when there are concerns about the deterioration of counterparty creditworthiness. Regarding individual lending, the Bank takes into account the expectation of non-payment periods and defaults, credit marks and events such as unemployment, bankruptcy, divorce or death.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Significant increase in credit risk (Continued)

Since the significant increase in credit risk since the initial recognition is a relative measure, a certain change in absolute value in the likelihood of default will be more important for a financial instrument with a lower initial probability of default than a financial instrument with a higher probability of default.

Adjustment and derecoghition of financial assets

An adjustment is made to the financial asset when the contractual terms that govern the cash flows of a financial asset are renegotiated or otherwise modified between the initial recognition and the financial asset. The amendment affects the amount and / or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or modification of the existing covenants of an existing loan will be an adjustment even if these new or amended commitments do not affect cash flows immediately but may affect the cash flows based on whether or not the undertaking is met (for example, Interest rate that arises when the pledges are extinguished).

The Bank renegotiates loans with customers facing financial difficulties to increase collection and minimize the risk of default. Loan repayment terms are facilitated in cases where the borrower has made all reasonable efforts to pay under the original contractual terms and an important risk of default or default has occurred and the borrower is expected to be able to meet the modified terms. The revised terms include in most cases the extension of the maturity of the loan, changes in the timing of the cash flows of the loan (repayment of principal and interest), reduction of the amount of cash flows due (principal and interest waiver) and adjustments to pledges. The Bank adopts a waiting policy and applies to corporate and individual lending.

When a financial asset is adjusted, the Bank assesses whether the amendment results in derecognition. According to the bank's policy, the amendment leads to cancellation of recognition when it leads to a significant difference in terms.

- Qualitative factors, such as contractual undiscounted cash flows remaining only as principal and interest payments on the original principal amount (SPPI), change in currency or change in counterparty, or extent of change in interest rates, maturity, or charters. Although these do not clearly indicate a substantial modification.
- Perform a quantitative assessment to compare the present value of the contractual cash flows remaining under the original terms with the contractual cash flows in accordance with the modified terms and deduct both amounts based on the original effective interest.

If a financial asset is derecognized, an provision for credit losses expected at the date of derecognition is re-measured to determine the net carrying amount of the asset at that date. The difference between the adjusted carrying amount and the fair value of the new financial assets with the new terms will result in a gain or loss on derecognition. The new financial asset will have a provision for impairment.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Adjustment and derecoghition of financial assets (Continued)

Measured on the basis of expected credit losses for a period of (12) months, except for rare cases in which the new loan is considered to have originated in a low credit. This applies only if the fair value of the new loan is recognized at a significant discount to the adjusted nominal amount where there is still a significant risk of default and has not been reduced as a result of the adjustment. The Bank monitors the credit risk of the adjusted financial assets by assessing qualitative and quantitative information, such as whether the borrower is in a default condition under the new conditions.

When the contractual terms of a financial asset are modified and the amendment does not result in derecognition, the Bank determines whether the credit risk of the financial asset has increased significantly since the initial recognition by comparing:

- Probability of non-payment for the remaining period estimated on the basis of data at initial recognition and original contractual terms;
- Probability of non-payment for the remaining period at the reporting date based on the modified terms.

Written-off

Financial assets are derecognized when there is no reasonable expectation of recovery, such as a failure to participate in a payment plan with the Bank. The Bank classifies funds or amounts due to be written off after all possible payment methods have been exhausted. However, if the financing or receivables are written off, the Bank continues enforcement to attempt recovering the receivable, which is recognized in the statement of income upon recovery.

Provision for credit loss is recognized in the statement of financial position

The expected credit loss provisions are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the total carrying amount of the asset;
- Debt instruments measured at fair value through other comprehensive income: A provision for impairment is not recognized in the statement of financial position as the carrying amount is at fair value. However, the provision for loss is included as part of the revaluation amount in the investment revaluation reserve;
- Loan commitments and financial guarantee contracts: as a provision;
- When the financial instrument contains a drawn-out and un-drawn component, the Bank cannot determine the expected credit loss on the loan liability component separately from that on the draw-down component: the Bank provides a compound loss provision for both components. The aggregate amount is presented as a deduction from the gross carrying amount of the component withdrawn. Any increase in the provision for loss is shown as the total amount of the component withdrawn as a provision.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Impairment of financial assets

The policy is effective until 31 December 2017 of IAS 39, Impairment of financial assets

Financial assets are measured at amortized cost to ensure that there is an indication of impairment loss at the end of each financial period. Impairment of financial assets is recognized when there is objective evidence that, as a result of one or more events after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The objective evidence of impairment loss may include the following:

- Significant financial difficulty for the issuer or counterparty,
- Breach of contract, such as default or delay in payment of interest payments or principal payments,
- Becoming a borrower is likely to offer bankruptcy or financial restructuring, or
- The disappearance of an active market for this financial asset due to financial difficulties.

Impairment is the difference between the carrying amount of financial assets and the present value of estimated future cash flows that reflects collateral and collateral, discounted at the original interest rate.

The carrying amounts of financial assets are carried at amortized cost directly to the extent of the impairment loss, except for loans and advances and bank deposits and balances where the carrying amount is reduced using the Provision account. If the loan is considered uncollectible, the loans are written off against the Provision account. Recoveries of debts previously written off to the provision account, and changes in the carrying amount of the Provision account are recognized in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease could have been objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of income to the extent that it does not exceed the carrying amount of the financial asset, at the date reversal of impairment, is the amortized cost if the impairment is not recognized.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Direct Credit Facilities

Special provisions are made for impairment of direct credit facilities on the basis of the difference between the carrying amount of loans and advances and the recoverable amount of the net present value of future cash flows discounted at the original interest rates. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of estimated future cash flows of a financial asset is a guarantee that reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether foreclosure is probable or not probable.

Impairment losses on credit facilities are recognized in the statement of income under "Provision for impairment in credit facilities" and credit facilities are written off against provisions determined after all procedures have been written off to restructure and collect the loans. If any amounts that have been written off previously have been collected, it is recognized as revenue.

Collective assessment of Credit Facilities

Where individually assessed loans are revalued and where there is no current evidence of a loss, there is a probability of losses based on the risk estimates and the likelihood that the loan situation or market conditions will change.

Provision for impairment losses include losses that may be realized from individual operating loans and impaired at the statement of financial position date, but are not specifically identified as impaired unless at a later date.

The expected impairment loss is calculated by the Bank's management for each specific portfolio, in accordance with the requirements of the PMA based on past experience, credit rating, and expected loan condition change, in addition to the estimated embedded losses that reflect the economic environment and the credit situation.

Financial Liabilities

Other financial liabilities, including loans and customer deposits, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method including interest expense recorded on an effective yield basis.

Debt instruments and equity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation that requires the issuer to make specific payments or other financial assets or to exchange financial assets or financial liabilities with another entity on terms that may be unfavorable to the Bank or a contract that will be settled or may be settled by the Bank's proprietary instruments. Or may be obliged to deliver a variable number of its own equity instruments or to hold derivatives on private equity that will be or may be settled other than the exchange of a fixed amount of cash (or other financial asset) for a specific number of equity instruments of the Bank.

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

Equity instruments

Paid-in capital

Equity instrument is any contract that evidences residual interest in an entity's assets after deducting all of its liabilities. The equity instruments issued by the Bank are recognized in accordance with the proceeds received, net of direct issuance costs.

Other financial liabilities

An effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. An effective interest rate is the price that exactly discounts estimated future cash payments over the life of the financial liability, or, where appropriate, a shorter period, to net book value at initial recognition. For details on the effective interest rate.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities only when the Bank's obligations are discharged, canceled or discharged. The difference between the carrying amount of the financial liability that is derecognized and the amount paid is recognized in the statement of income.

When the Bank exchange a single debt instrument with the current lender with another instrument on substantially different terms, the exchange is recognized as amortization of the original financial liability and recognizes new financial liabilities. Similarly, the Bank treats the significant adjustment of the existing liability or part of it as an extinguishment of the original financial liability and recognition of the new obligation. The terms are assumed to differ materially if the discounted present value of cash flows under the new terms, including any charges paid net of any charges received and discounted using the original effective rate of at least 10 per cent of the present discounted value of the remaining cash flows of the original financial liabilities

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specific payments to compensate the owner of the guarantee for any loss incurred by the debtor failing to meet the payments when due in accordance with the provisions of the debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair value and subsequently measured, if not designated as a financial instrument at fair value through profit or loss, at the higher of:

3. Summary of significant accounting policies (Continued)

3.3 Financial Instruments (Continued)

• the value of the obligation under the contract, in accordance with IAS 37, Provisions, contingent liabilities and contingent Assets;

• The initially recognized amount less, if appropriate, the total amortization recognized in accordance with the income recognition policies.

Any excess of the liability relating to financial guarantees is recognized in the statement of income and the premiums received are recognized in the statement of income under "net fee and commission income" on a straight-line basis over the period of the guarantee.

3.4 Revenue Recognition

Revenue is recognized to the extent that the Bank's economic benefits are likely to flow and revenue is measured reliably, also, the following specific recognition criteria must be met before revenue is recognized.

Interest income and expense are recorded using the effective yield method, and interest on non-performing loans is suspended when it becomes doubtful that the interest or original amount of the loan will be collected.

Management fees and commission income from syndicated loan arrangements are amortized over the term of the loan using the effective yield method. Commissions and other bank fees are recognized on the date of the transaction that results in the revenue. Income from dividends and investment funds is recognized when the right to receive dividend is declared.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, unless there is a more systematic basis for allocating the economic benefits of the leased asset over the lease term. Rental commitments that are recognized in operating leases are recognized as an expense in the period in which they are incurred.

In the event that rent incentives are received for operating leases, these incentives are recognized as liabilities. The total benefit from the incentive is recognized as a reduction of the lease expense on a straight-line basis unless there is a more systematic basis for allocating the economic benefits of the leased asset over the lease term.

3.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Property and equipment are depreciated (except lands) when they are ready to be used on a straight-line basis over the estimated useful life of the asset (Depreciation is between 2%-20% annually)

Where the recoverable amount of any property and equipment is less than its net carrying amount, the amount is reduced to its recoverable amount and the amount of the impairment loss is recognized in the statement of income.

3. Summary of significant accounting policies (Continued)

3.5 Property, plant and equipment (Continued)

The useful life of property and equipment is revalued at the end of each year. If the excepted useful life is different from the previously estimated amount, the change in estimate for subsequent years is recorded as a change in estimates.

Property and equipment are disposed of upon disposal or when no future benefits are expected from their use or disposal.

At the end of each financial period, the Bank reviews the carrying amounts of assets to determine whether there is any indication that an asset may be impaired. If such indicators arise, the recoverable amount of the asset is estimated to determine the extent of the loss, if any. When it is difficult to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the asset's cash-generating unit. When a reasonable and consistent basis for distribution can be determined, business assets are also allocated to individual cash-generating units or otherwise distributed to the smallest cash-generating unit that can establish a reasonable and consistent basis for distribution.

3.6 Business combinations

Business ownership is accounted for using the purchase method. The transfer consideration is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the company on the date of acquisition and the liabilities assumed by the company to the acquirer's former owners as well as equity interests issued by the company in return for control of the acquire. Acquisition costs are recognized in profit or loss as incurred.

At the acquisition date, identifiable assets acquired and liabilities secured by there are recognized at fair values .

Goodwill is measured by determining the increase in the transferred consideration, the amount of any non-controlling interest in the acquire and the fair value of the acquirer's previously acquired equity interest in the acquire (if any) on the net identifiable assets acquired and liabilities secured at the date of acquisition. If, after revaluation, the net amount of the acquirer's identifiable assets and the secured liabilities at the date of acquisition exceeds the total transferred consideration and the amounts of any non-controlling interest in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), recognition of the increase directly in profit or loss as a purchase gain at a low price.

Non-controlling interests that are current equity interests and which entitle their owners to a proportionate share of the net assets of the enterprise in the event of liquidation can be measured initially either at fair value or at the proportionate share of the non-controlling interest of the recognized amounts of net identifiable assets at the acquire. The measurement basis is chosen on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or on the basis of criteria specified in another IFRS when appropriate.

3. Summary of significant accounting policies (Continued)

3.6 Business combinations (Continued)

When the transferable consideration of a business combination includes assets or liabilities arising from a possible allowance arrangement, the potential allowance is measured at fair value at the date of acquisition and is included as part of the transferred consideration in the business combination. Changes in the fair value of a contingent consideration that may be considered as adjustments to the measurement period are adjusted retroactively, with corresponding adjustments to goodwill. Adjustments to the measurement period are those arising from additional information obtained during the measurement period (which cannot exceed one year from the date of acquisition) on the facts and circumstances prevailing at the date of acquisition.

Subsequent accounting of changes in the fair value of a contingent consideration that cannot be considered as adjustments to the measurement period depends on how the probable allowance is classified. The contingent consideration that is classified as equity is not remeasured on subsequent reporting dates and the subsequent adjustment is accounted under equity. The potential allowance is reclassified as an asset or liability at subsequent reporting dates in accordance with IFRS 9 or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, recognizing profit or loss corresponding statement of income.

If the business combination is carried out in stages, the interests of the former entity in the acquire are remeasured to their fair value at the date of acquisition (ie, on the date the control of the acquired entity is transferred to the Company), and gains and losses, if any, are recognized in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date, previously recognized in other comprehensive income, are reclassified to profit or loss if the treatment is appropriate if such interests are disposed of.

If the initial accounting for the business combination does not end at the end of the financial period in which the merger occurred, the Company records the provisional amounts of the items for which the accounting has not been completed. These interim amounts are adjusted during the measurement period, or additional assets or liabilities are recognized to reflect new information acquired about the facts and circumstances prevailing at the date of acquisition, if any, that would affect the amounts recognized as at that date.

3.7 Offsetting

A financial asset is derecognized and a financial liability is recognized and the net amount shown in the statement of financial position only when the legally enforceable rights are available, when they are settled on a settlement basis or the asset is realized and the liability settled at the same time.

3. Summary of significant accounting policies (Continued)

3.8 Intangible assets

Goodwill

Goodwill is recorded at the cost of the acquisition or purchase of the investment in the associate or affiliate in the fair value of its net assets at the acquisition date. Goodwill arising on investment in subsidiaries is recorded separately as intangible assets. While, goodwill arising from investing in associates is shown as part of the investment account of the associate and the cost of goodwill is subsequently reduced by any impairment in value of the investment.

Goodwill is allocated to the cash generating unit (s) for impairment testing purposes.

Goodwill is tested for goodwill at the date of preparation of the financial statements and goodwill is reduced if there is an indication that the goodwill has been impaired. If the estimated recoverable amount of the cash-generating unit (s) to which goodwill relates is less than the carrying amount of the unit Cash generation the impairment is recognized in the statement of income.

3.9 Impairment of Tangible Assets

At the end of each financial period, the Bank performs a review of the carrying amounts of assets to determine whether there is any indication that the asset is impaired. If such indicators arise, the recoverable amount of the asset is estimated to determine the extent of the loss (if any). Where it is difficult to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the asset's cash-generating unit. When a reasonable and consistent basis for distribution can be determined, business assets are also allocated to individual cash-generating units or otherwise distributed to the smallest cash-generating unit that can identify a reasonable and consistent basis for distribution. Recoverable amount is valued at fair value less costs to sell or value in use, whichever is higher. In assessing the value in use, the estimated cash flows are discounted to their present value using a discount rate that reflects their current market value and the risks to the asset for which their cash flow projections have not been adjusted.

If the estimated recoverable amount of an asset (or cash-generating unit) is less than its present value, the present value of the asset (or cash-generating unit) is reduced to reach its recoverable amount. Impairment losses are charged to the statement of income only if the asset has been revalued and in this case the impairment loss is treated as a decrease in revaluation.

If the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased until it reaches the estimated recoverable amount, provided that the increase is not higher than the carrying amount if there is no impairment in the asset (cash-generating unit) previous years. An impairment loss is recognized in the statement of income only if the asset has been revalued, in which case the reversal of the impairment loss is treated as an increase in revaluation.

3. Summary of significant accounting policies (Continued)

3.10 Assets repossessed to the Bank in settlement of accrued debts

Assets acquired by the Bank are included in the statement of financial position as "other assets" at the lower of their carrying amount or fair value and are subsequently re-measured at the date of the financial statements at their fair value. The increase is not recognized as income. A subsequent increase in the statement of income is recorded to the extent that it does not exceed the previously recorded impairment loss.

In accordance with the instructions of the Palestine Monetary Authority (2/2015), the Bank must sell all the properties that it has owned in return for debts within a period not exceeding 2 years and may be extended for 5 years with the approval of the PMA. Any extension of subsequent periods or acquisition is in accordance with the approval of the Palestine Monetary Authority. If the Bank does not dispose of the property during the legal period, a provision of 100% of the value of the acquisition is taken and the impact on the financial statements is reversed.

3. 11 Provision for end of services indemnity

End of service indemnity are provided for in accordance with the Bank's bylaws approved by the labor law in Palestine. The Bank records the provisions calculated on the statement of income for any contingent liabilities or claims according to its estimated value and the probability of achieving it at the balance sheet date.

3-12 other provisions

Provisions are recognized 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 realized on the date of financial position.

3.13 Taxes

Tax expenses represent the amounts of accrued taxes and deferred taxes.

- Accrued 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 includes a non-taxable revenue, 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.

3. Summary of significant accounting policies (Continued)

3.13 Taxes (Continued)

- Deferred taxes

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 recognized.

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. The Management considered that deferred taxes for 2018 and 2017 should not be recorded for its belief that there would be no tax benefit.

3.14 Foreign Currency

The financial statements are presented in US Dollars, which is the currency of the prevailing economic environment in which the Bank exercises its activities (functional currency). Currency in currencies other than the functional currency of the entity is recognized at transaction price prices at the end of each reporting period.
Balances of financial assets and financial liabilities are translated at the average foreign exchange rates prevailing at the reporting date and reported by the PMA. Non-financial assets and non-monetary liabilities denominated in foreign currencies and at fair value are translated at fair value at the date when the fair value was determined. Foreign exchange gains and losses are recognized in the statement of income. Translation differences on non-monetary items and liabilities denominated in foreign currencies (such as equity securities) are recorded as part of the change in fair value

3.15 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.

3.16 Investment in associate

The associate company is a company in which the Bank exercises effective influence over financial and operating policy decisions. It is neither a subsidiary nor a joint venture. Investments in associates are accounted for using the equity method. Investments in associates are accounted for using the equity method. Transaction costs. The carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 (Impairment of Assets).

Dividend income from associate is recognized under the equity method of accounting.

3. Summary of significant accounting policies (Continued)

3.17 Segment information

A business is a group of assets and processes that jointly offer products or services subject to risks and rewards that differ from those of other business segments and are measured according to reports used by the Bank's general manager and decision makers.
A geographical segment is associated with the provision of products or services in a specific economic environment that is subject to risks and rewards that differ from those of segments operating in other economic environments.

Revenue and expenses directly related to each segment are used to determine the performance of the operating segments. Internal reporting is concerned with credit concentration and analysis of business results by business, economic and geographic sectors.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of the financial statements and the application of accounting policies require management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resulting provisions and expected credit loss as well as other comprehensive income items. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore, actual results may differ resulting in future changes in such provisions.

Judgments, estimates and assumptions are reviewed periodically. The effect of the change in estimates is recognized in the financial period in which the change occurs, if the change affects only the financial period. And the effect of the change in estimates is recognized in the financial period in which the change occurs and in future periods, in case the change affects the financial period and future financial periods.

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

Impairment of acquired assets

Impairment in value of properties acquired is recognized based on recent and approved real estate evaluation conducted by appraisers/ valuers approved for impairment calculation purposes. The impairment loss is reviewed periodically.

Useful lives of tangible and intangible assets

The management periodically reassesses useful lives of tangible assets and intangible assets for the purpose of calculating the annual depreciations and amortization depending on the general condition of these assets and estimates of the expected useful lives in the future, and impairment loss (if any) is recognized in the statement of income for the year.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty. (Continued)

Income tax
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 lawsuits
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.

Provision for end-of-Service indemnity
The provision of end of service indemnity are provided in accordance with the Bank's bylaws approved by the labor law in Palestine.

Assets and liabilities at cost
Management reviews the assets and liabilities that are carried at cost periodically for the purpose of estimating any impairment in value and the impairment loss is recognized in the statement of income for the year.

Provision for credit losses
Management use significant judgments and estimates to estimate the amounts and timing of future cash flows and to estimate the risks of an increase in credit risk for financial assets after initial recognition and future measurement information for expected credit losses. The most significant policies and estimates used by the Bank's management are detailed in the attached notes to the financial statements.

Evaluation of business model
The classification and measurement of financial assets depends on the results of the principal and interest payments test on the principal outstanding and the business model test. The Bank defines a business model at a level that reflects how the groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment that reflects all relevant evidence, including how to assess the performance of the asset, measure its performance, the risks that affect the performance of the asset and how it is managed, and how the asset managers are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized before maturity to understand the reason for derecognition and whether the reasons are consistent with the objective of the business being retained. The audit is part of the Bank's ongoing assessment of whether the business model under which the remaining financial assets are retained is appropriate, and whether it is not appropriate if there is a change in the business model and therefore a future change is made in the classification of those assets.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty. (Continued)

Significant increase in credit risk

The expected credit loss is measured as a Provision equivalent to the expected credit loss of 12 months for the assets of the first stage, or the credit loss over the life of the assets of the second or third stage. The asset moves to the second stage if credit risk increases significantly since initial recognition. IFRS 9 does not specify what constitutes a significant increase in credit risk. In assessing whether the credit risk of any asset has increased significantly, the Bank takes into account reasonable and reliable quantitative and qualitative information. The estimates used by the Bank's management relating to the significant change in credit risk that result in a change in classification within the three stages (1, 2 and 3) are described in detail in the attached notes to the financial statements.

Establish groups of assets with similar credit risk characteristics

When the expected credit losses are measured on a collective basis, the financial instruments are grouped on the basis of common risk characteristics instrument type, credit risk, collateral type, initial recognition date, remaining maturity period, industry, borrower's geographic location, etc.). The Bank monitors the appropriateness of credit risk characteristics on an ongoing basis to assess whether they are still similar. This is required to ensure that, in the event of a change in the credit risk characteristics, the asset is properly reallocated. This may result in the creation of new portfolios or the transfer of assets to an existing portfolio that better reflects the credit risk characteristics of that group of assets.

Re-division of portfolios and movements between portfolios

The re-division of portfolios and movements between portfolios is more common when credit risk increases significantly (or when such a large increase is reflected) and therefore assets are transferred from expected credit losses of between 12 months to the end or vice versa, Portfolios that continue to be measured on the same basis as expected 12-month or lifetime credit losses but the amount of expected credit loss changes due to different credit risk from portfolios.

Models and assumptions used

The Bank uses various models and assumptions in measuring the fair value of financial assets as well as in assessing the expected credit loss. The judgment is applied when determining the best models for each type of asset as well as for the assumptions used in those models, which include assumptions regarding the main drivers of credit risk.

A) Classification and measurement of financial assets and liabilities

The Bank classifies financial instruments or components of financial assets at initial recognition either as a financial asset or a financial liability or as a title in accordance with the substance of the contractual agreements and the definition of the instrument. The reclassification of a financial instrument is subject to the substance of the financial statements and not to its legal form.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty. (Continued)

The Bank shall determine the classification at initial recognition, as well as a reassessment of such determination, if possible and appropriate, at each balance sheet date.

When measuring financial assets and liabilities, certain of the Bank's assets and liabilities are remeasured at fair value for financial reporting purposes. In assessing the fair value of any assets or liabilities, the Bank uses available observable market data. In the absence of level 1 inputs, the Bank conducts evaluations using professionally qualified independent evaluators. The Bank works closely with qualified external evaluators to develop appropriate valuation and data valuation techniques.

B) Fair value measurement

If active markets cannot be obtained from the fair values of financial assets and financial liabilities included in the statement of financial position, those fair values are determined using a range of valuation techniques involving the use of accounting models. If possible, the data entered from those models will be obtained from market data. In the absence of such market data, fair values are determined by making judgments. These provisions include liquidity considerations and model data such as derivative volatility, longer-term discount rates, pre-payment ratios and default rates on asset-backed securities. Management believes that the valuation techniques used are appropriate to determine the fair value of financial instruments.

Key Sources of Uncertainty Estimates

The principal estimates used by management in the process of applying the Bank's accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Determining the number and relative weight of scenarios and future outlook for each type of product / market and identifying future information relevant to each scenario. In measuring the expected credit loss, the Bank uses reasonable and supported future information based on the assumptions of the future movement of the various economic engines and how these affect each other.

The possibility of default

The potential for default is a key input in measuring the expected credit loss. The probability of default is an estimate of the probability of default over a given period of time, which includes the calculation of historical data, assumptions and expectations relating to future circumstances.

4- Critical Accounting Judgments and Key Sources of Estimation Uncertainty. (Continued)

Loss by default

Loss on the assumption of default is an estimate of the loss arising from default. It is based on the difference between the contractual cash flows due and those that the financer expects to collect, taking into account cash flows from collateral and integrated credit adjustments.

Fair value measurement and valuation procedures

When estimating the fair value of financial assets and financial liabilities, the Bank uses available observable market data. In the absence of level 1 inputs, the Bank conducts evaluations using appropriate valuation models to determine the fair value of financial instruments.

5. Cash and Balances at Palestine Monetary Authority

	2018 USD	2017 USD
Cash on hand	**140,177,924**	161,702,759
Balances at Palestine Monetary Authority:		
Statutory cash reserve	**83,670,942**	72,687,845
Cash and balances at PMA	**28,297,940**	23,100,396
	252,146,806	257,491,000

* 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.

6. Balances at Banks and Financial Institutions

This item comprises the following:

	2018 USD	2017 USD
Local banks and financial institutions:		
Current and demand accounts	**--**	17,195,804
Deposits matures within 3 months	**60,143,436**	1,199,800
	60,143,436	18,395,604
Foreign banks and financial institutions:		
Current and demand accounts	**56,731,702**	34,586,587
Deposits matures within 3 months	**36,977,462**	18,988,066
Deposits matures after 3 months	**7,052,186**	--
	100,761,350	53,574,653
Total	**160,904,786**	71,970,257
Expected credit loss	**(101,500)**	--
Net	**160,803,286**	71,970,257

6. Balances at Banks and Financial Institutions (Continued)

The non-interest-bearing balances at banks and financial institutions amounted to USD 43,591,226 as at December 31, 2018 and USD 34,586,587 as at December 31, 2017.

The restricted balances amounted to USD 532,007 as at December 31, 2018 and USD 143,414 as at December 31, 2017.

The movement of balances with banks and financial institutions during the year is as follows:

	Level (1) Individual USD	Level (2) Individual USD	Level (3) Individual USD	Total USD
Balance, beginning of the year	71,970,257	--	--	71,970,257
Movement during year	88,934,529	--	--	88,934,529
Balance, end of the year	**160,904,786**	--	--	**160,904,786**

There are no transfers between the phases (first, second and third) or written-off balances during the year ended December 31, 2018.

The movement on the provision for expected credit losses for balances with banks and financial institutions is as follows:

	2018			
	Level (1) USD	Level (2) USD	Level (3) USD	Total USD
Balance, beginning of the year (before adjustment)	--	--	--	--
Effect of application of IFRS 9 regarding impairment - note 2	76,548	--	--	76,548
Balance at beginning of the year (adjusted)	76,548	--	--	76,548
Expected credit losses for the year - net	24,952	--	--	24,952
Balance, end of the year	**101,500**	--	--	**101,500**

7.Direct Credit Facilities - Net

	2018 USD	2017 USD
Loans	**633,710,432**	566,270,781
Overdraft accounts	**74,056,839**	85,967,109
Discounted bills	**11,159,851**	11,294,296
	718,927,122	663,532,186
Less: -		
Suspended interest and commissions	**(773,872)**	(368,380)
Provision for impairment of direct credit facilities	**(20,349,745)**	(4,645,843)
Net	**697,803,505**	658,517,963

The balance of promissory notes and loans after deducting the interest and commissions received in advance amounting to USD 2,266,493 as at December 31, 2018 (USD 2,686,066 as at December 31, 2017).

The credit facilities classified as net of outstanding interest amounted to USD 45,017,990 or 6.26% of total direct credit facilities as at December 31, 2018 compared to USD 16,468,575, or 2.48% of the balance of direct credit facilities, December 31, 2017.

Non-performing loans after deducting the outstanding interest as of December 31, 2018 amounted to USD 25,076,586 compared to USD 14,334,539 as at December 31, 2017.

The value of credit facilities that have been in default for more than 6 years amounted to USD 8,803,680 as at December 31, 2018 and USD 9,035,530 as at December 31, 2017.

The total loans and overdraft granted to the Palestine National Authority and its ministries amounted to USD 25,225,150 as at December 31, 2018, representing 3.51% of total direct credit facilities, compared to USD 33,014,970 as at December 31, 2017, or 4.98% of total direct credit facilities.

The fair value of collaterals against credit facilities amounted to USD 411,503,711 as at December 31, 2018 compared to USD 130,741,240 as at December 31, 2017.

Credit facilities granted to public sector employees amounted to USD 191,090,791 as of December 31, 2018 representing 26.58% of the total facilities granted and USD 185,570,219 as at December 31, 2017, representing 27.97% of the total facilities granted.

Credit facilities granted to non-residents amounted to USD 13,116,581 as at December 31, 2018 and USD 3,517,754 as at December 31, 2017.

7. Direct Credit Facilities – Net (Continued)

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

	2018 USD	2017 USD
Balance, beginning of the year	**368,380**	503,106
Suspended interest during the year	**480,566**	283,902
Interest transferred to revenues	**(75,074)**	(22,123)
Suspended interest over facilities non-performing for more than 6 years	--	(395,820)
Currency variances	--	(685)
Balance, end of the year	**773,872**	368,380

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

	Stage (1) USD	Stage (2) USD	Stage (3) USD	2018 USD	2017 USD
Balance, beginning of the year (before adjustment)	--	--	4,645,843	4,645,843	4,554,172
Effect of application of IFRS 9 regarding impairment	3,253,369	7,411,439	--	10,664,808	--
Balance, beginning of the year (adjusted)	3,253,369	7,411,439	4,645,843	15,310,651	4,554,172
Additions to Stage 3	--	--	10,977,417	10,977,417	3,853,804
Recoveries on Stage 3	--	--	(2,480,809)	(2,480,809)	(1,689,869)
Net recoveries and transfers of provision for impairment of facilities on stage 1 and 2	(984,390)	(2,443,899)	--	(3,428,289)	--
Total effect on exposure as a result of re-classification between stages	(984,390)	(2,443,899)	8,496,608	5,068,319	2,163,935
Written-off provisions against credit facilities	--	--	(2,447)	(2,447)	--
Excluding provisions for impairment of facilities - more than 6 years	--	--	(6,556)	(6,556)	(2,257,393)
Adjustments during the year and currency variance adjustments	--	--	(20,222)	(20,222)	185,129
Balance, end of the year	2,268,979	4,967,540	13,113,226	20,349,745	4,645,843

The following is the movement on the provision for the decrease in direct credit facilities that have been defaulted for more than 6 years:

	2018 USD	2017 USD
Balance, beginning of the year	**8,833,393**	6,567,622
Transfer from the provision of facilities have been defaulted- more than 6 years	**6,556**	2,257,393
Bad debt	**(9,823)**	--
Disposals	**(406,711)**	(321,072)
Currency variance	**(84,284)**	329,450
Balance, end of the year	**8,339,131**	8,833,393

7. Direct Credit Facilities – Net (Continued)

Distribution of credit facilities (before deducting provision for impairment) and after the deduction of interest on the economic sectors:

	2018 USD	2017 USD
Public sector		
Palestine National Authority	**25,225,150**	33,014,970
Total public sector	**25,225,150**	33,014,970
Private sector		
Real estate and constructions		
Constructions	**40,248,136**	28,505,038
Accommodation and improving housing conditions	**47,338,235**	2,994,298
Real estate, business and investment	**9,587,498**	11,814,969
Total	**97,173,869**	43,314,305
Lands		
For investment	**8,280,132**	8,921,443
Industry and mineral sector		
Industry	**62,983,580**	46,455,704
General trading sector		
Internal trading	**168,715,270**	140,994,550
Agriculture and livestock sector		
Agriculture	**9,254,784**	8,645,770
Livestock	**33,744,443**	27,844,592
Total	**42,999,227**	36,490,362
Tourism, other restaurants and hotels sector	**12,426,236**	12,644,130
Transport	**6,159,038**	2,246,800
Services sector		
Financial services	**23,255,258**	28,387,253
Public services sector		
Communications	**4,589,654**	2,423,876
Health	**700,048**	643,407
Education	**5,691,548**	5,330,474
Public utilities	**3,813,228**	5,513,233
Professionals	**34,248,150**	40,281,862
Total	**49,042,628**	54,192,852
Car financing	**14,890,079**	17,019,648
Financing consumer goods		
Credit cards	**10,360,571**	5,846,546
Others	**190,777,173**	227,771,661
Others in the private sector	**5,865,039**	5,863,582
Total	**207,002,783**	239,481,789
Total public and private sector facilities	**718,153,250**	663,163,806

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7. Direct Credit Facilities - Net (Continued)

The movement of the credit facilities exposures for the year ended 31 December 2018 is as follows:

Individuals	**Stage (1) USD**	**Stage (2) USD**	**Stage (3) USD**	**Total USD**
Total exposure at the beginning of the year	171,067,202	87,631,956	8,343,934	267,043,092
Exposures during the year	27,319,415	1,754,711	1,409,151	30,483,277
Losses paid during the year	(34,929,055)	(5,645,720)	(1,029,452)	(41,604,227)
Transferred to stage 1	24,566,963	(24,491,980)	(1,265,116)	(1,190,133)
Transferred to stage 2	(16,669,020)	15,768,680	(474,227)	(1,374,567)
Transferred to stage 3	(103,730)	(5,185,015)	4,789,370	(499,375)
Total effect on exposure as a result of reclassification	7,794,213	(13,908,315)	3,050,027	(3,064,075)
Bad debt exposures	--	--	(9,823)	(9,823)
Total exposure at the end of the year	171,251,775	69,832,632	11,763,837	252,848,244

Corporates	**Stage (1) USD**	**Stage (2) USD**	**Stage (3) USD**	**Total USD**
Total exposure at the beginning of the year	147,272,176	14,423,492	2,077,051	163,772,719
Exposures during the year	55,585,634	112,752	30,621	55,729,007
Losses paid during the year	(23,654,821)	(268,657)	(79,454)	(24,002,932)
Transferred to stage 1	14,728,217	(10,243,909)	3,203	4,487,511
Transferred to stage 2	(15,114)	15,331	(15,016)	(14,799)
Transferred to stage 3	--	(842,076)	677,544	(164,532)
Total effect on exposure as a result of reclassification	14,713,103	(11,070,654)	665,731	4,308,180
Bad debt exposures	--	--	--	--
Total exposure at the end of the year	193,916,092	3,196,933	2,693,949	199,806,974

7. Direct Credit Facilities – Net (Continued)

Small and Medium Companies	Stage (1) USD	Stage (2) USD	Stage (3) USD	Total USD
Total exposure at the beginning of the year	146,913,013	23,266,253	2,593,458	172,772,724
Exposures during the year	64,386,221	673,814	406,836	65,466,871
Losses paid during the year	(25,998,176)	(1,160,881)	(1,013,937)	(28,172,994)
Transferred to stage 1	13,582,375	(11,631,594)	(411,886)	1,538,895
Transferred to stage 2	(12,502,545)	10,867,730	(261,022)	(1,895,837)
Transferred to stage 3	(1,664,401)	(6,035,031)	8,613,055	913,623
Total effect on exposure as a result of reclassification	(584,571)	(6,798,895)	7,940,147	556,681
Total exposure at the end of the year	184,716,487	15,980,291	9,926,504	210,623,282

Real Estate	Stage (1) USD	Stage (2) USD	Stage (3) USD	Total USD
Total exposure at the beginning of the year	24,051,218	2,752,141	125,322	26,928,681
Exposures during the year	5,908,489	214,161	26,474	6,149,124
Losses paid during the year	(2,245,819)	(227,706)	(77,219)	(2,550,744)
Transferred to stage 1	1,910,112	(1,708,288)	(48,103)	153,721
Transferred to stage 2	(2,629,518)	2,520,981	--	(108,537)
Transferred to stage 3	--	(382,056)	233,283	(148,773)
Total effect on exposure as a result of reclassification	(719,406)	430,637	185,180	(103,589)
Bad debt exposures	--	--	--	-
Total exposure at the end of the year	26,994,482	3,169,233	259,757	30,423,472

Government and Public Sector	Stage (1) USD	Stage (2) USD	Stage (3) USD	Total USD
Total exposure at the beginning of the year	33,014,970	--	--	33,014,970
Exposures during the year	(33,014,970)	--	--	(33,014,970)
Losses paid during the year	25,225,150	--	--	25,225,150
Transferred to stage 1	25,225,150	--	--	25,225,150
Transferred to stage 2	--	--	--	--
Transferred to stage 3	--	--	--	--
Total effect on exposure as a result of reclassification	25,225,150	--	--	25,225,150
Total exposure at the end of the year	25,225,150	--	--	25,225,150

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7. Direct Credit Facilities – Net (Continued)

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

2018

Facility Type	**Granted amount**	**Outstanding balance**	**Bank's carrying**	**Non-performing**
Direct facilities	**3,146,319**	**2,288,451**	**30%**	**5,720**
Direct facilities	**3,959,632**	**2,498,919**	**15%-35%**	**-**
	7,105,951	**4,787,370**		**5,720**

2017

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

8. Financial assets at fair value through statement of income

This item represents shares listed on the Palestine Stock Exchange with a fair value of USD 90,506 and USD 103,260 as of December 31, 2018 and 2017, respectively.

9. Financial assets at fair value through other comprehensive income

	2018 USD	2017 USD
Quoted shares in Palestine Exchange	**4,861,144**	2,661,829
Unquoted financial assets	**802,336**	396,500
	5,663,480	3,058,329

The movement of fair value reserve is as follows:

	2018 USD	2017 USD
Balance, beginning of the year	(2,782,374)	1,734,184
Unrealized gains / losses	(94,482)	2,482,923
Gains from sale of financial assets	273,844	(6,999,481)
Balance, end of the year	**(2,603,012)**	(2,782,374)

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10. Financial assets at amortized cost

December 31, 2018	Governmental bonds	Quoted bonds	Other Bonds	Total
	USD	USD	USD	USD
Financial assets at amortized cost (local)	-	10,770,000	-	**10,770,000**
Financial assets at amortized cost (foreign)	1,407,835	-	6,357,110	**7,764,945**
Total	**1,407,835**	**10,770,000**	**6,357,110**	**18,534,945**
Provision of expected loss				**(81,933)**
Net				**18,453,012**

December 31, 2017	Governmental bonds	Quoted bonds	Other Bonds	Total
	USD	USD	USD	USD
Financial assets at amortized cost (local)	-	3,770,000	-	3,770,000
Financial assets at amortized cost (foreign)	5,639,145	-	-	5,639,145
	5,639,145	3,770,000	-	9,409,145

The movement on financial assets at amortized cost during the year is as follows:

	Stage (1)	Stage (2)	Stage (3)	Total
	USD	USD	USD	USD
Balance, beginning of the year	9,409,145	-	-	9,409,145
Movement during the year	9,125,800	-	-	9,125,800
Balance, end of the year	**18,534,945**	-	-	**18,534,945**

No transfers between the stages (first, second and third) or bad debt accounts during the year ended December 31, 2018.

10. Financial assets at amortized cost (Continued)

The movement in the provision for credit losses is as follows:

	2018			
	Stage (1) USD	Stage (2) USD	Stage (3) USD	Total USD
Balance, beginning of the year (before adjustment)	-	-	-	-
Effect of application of IFRS 9 regarding impairment	31,427	-	-	31,427
Balance, beginning of the year (adjusted)	31,427	-	-	31,427
Expected credit loss for the year –net	50,506	-	-	50,506
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Balance, end of the year	**81,933**	-	-	**81,933**

11. Investment in associate

	Country	Ownership ratio	Sector	Investment Amount 2018 USD
Expert Solutions	Palestine	35%	Information Technology	**1,433,126**
Total				**1,433,126**

* Expert for Solutions Private Partnership Limited was registered with the Palestine Ministry of National Economy on December 28, 2010 under registration number (562508416) with a capital of USD 1,000,000. Expert Solutions is an advanced IT company. The company focuses on delivering high quality and reliable technology solutions to customers to help them maintain continuity, productivity, security, data integrity and systems.

The following is a summary of the movement on the value of the investment in the associate:

	2018 USD
Balance, beginning of the year	-
Additions	**1,569,363**
Deductions of the value of the investment against the Bank's share of the losses of the associate company	**(136,237)**
Balance, ending of the year	**1,433,126**

11. Investment in associate (Continued)

The following table summarizes the financial information relating to the Bank's investment in an associate as at December 31, 2018:

	Expert Solutions Co.
Financial position of the associate company	USD
Non – current assets	3,354,134
Current assets	1,208,963
Non – current liabilities	1,236,706
Current liabilities	1,209,114
Equity	2,117,277
Bank's ownership ratio	35%
Banks share of book value	741,047
Difference between purchase price and book value (Goodwill)	692,079
Total	1,433,126
Bank's share of the business results of the associate company:	
Results of the year	(136,237)
Other comprehensive income	-

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12. Property and Equipment - Net

December 31, 2018	Lands	Buildings	Furniture and office equipment	Computers Information systems	Vehicles	Leasehold improvements	Total
	USD	USD	USD	USD	USD	USD	USD
Cost							
Balance at beginning of the year	13,092,779	4,059,034	4,194,139	10,953,679	775,834	15,570,745	48,646,210
Additions*	-	-	328,345	3,610,109	221,088	1,487,518	5,647,060
Disposals	-	-	(288,886)	(577,517)	(51,450)	(300,295)	(1,218,148)
Balance at end of the year	13,092,779	4,059,034	4,233,598	13,986,271	945,472	16,757,968	53,075,122
Accumulated depreciation							
Balance at beginning of the year	-	722,987	2,520,041	6,194,439	233,421	8,696,990	18,367,878
Additions	-	81,181	356,960	1,056,183	108,247	1,236,139	2,838,710
Disposals	-	-	(189,574)	(461,328)	(39,767)	(25,685)	(716,354)
Balance at end of the year	-	804,168	2,687,427	6,789,294	301,901	9,907,444	20,490,234
Net book value December 31, 2018	13,092,779	3,254,866	1,546,171	7,196,977	643,571	6,850,524	32,584,888

* Additions during the year include property and equipment owned by Jordan Kuwait Bank - Palestine (Note 13)

12. Property and Equipment – Net (Continued)

December 31, 2017	Lands USD	Buildings USD	Furniture and office equipment USD	Computers Information USD	Vehicles USD	Leasehold improvements USD	Total USD
Cost							
Balance at beginning of the year	10,632,276	4,059,034	3,885,329	8,982,641	679,045	14,808,925	43,047,250
Additions	2,460,503	-	375,700	2,126,834	398,789	920,825	6,282,651
Disposals	-	-	(66,890)	(155,796)	(302,000)	(159,005)	(683,691)
Balance at end of the year	13,092,779	4,059,034	4,194,139	10,953,679	775,834	15,570,745	48,646,210
Accumulated depreciation							
Balance at beginning of the year	-	641,805	2,172,809	5,423,811	290,669	7,665,333	16,194,427
Additions	-	81,182	381,419	881,287	82,664	1,169,236	2,595,788
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

13. Intangible Assets

	2018 USD	2017 USD
Balance, beginning of the year	22,481	24,244
Addition during the year	35,151	-
Goodwill	2,360,640	-
Amortization during the year	(2,056)	(1,763)
Balance, end of the year	**2,416,216**	22,481

During the year 2018, an agreement was signed to acquire / combine a bank portfolio between Al-Quds Public Shareholding Company Ltd. and Jordan Kuwait Bank (JKB), which provides for the sale of all of the JKB's portfolio in Palestine, including its assets and liabilities to Al Quds Bank. After obtaining the necessary approvals from the relevant official authorities, the two parties agreed to document the sale process in favor of Al-Quds Bank Company at a price equal to the net equity of Jordan Kuwait Bank in Palestine on the date of acquisition, less some items agreed between the parties. During the issuance of shares in favor of Jordan Kuwait Bank with 10% of the capital of Al Quds Bank after the increase, so that the contribution of Jordan Kuwait Bank shall not exceed 10% of the capital of Al Quds Bank. And the payment by Al Quds Bank of the remaining transaction in favor of Jordan Kuwait Bank in cash.

Details of the assets and liabilities of Jordan Kuwait Bank on the date of acquisition are as follows:

Assets	**USD**
Cash and balances at Palestine Monetary Authority	25,049,453
Balances at banks and financial institutions	3,153,116
Balances and deposits at head office	61,027,712
Direct credit facilities -Net	19,308,346
Financial assets at fair value through statement of comprehensive	7,424,253
Property, plant and equipment -Net	1,903,452
Other assets	369,390
Total Assets	**118,235,722**
Liabilities	
Head office deposits	9,280,320
Customers' deposits	60,186,511
Cash margins	1,811,589
Other liabilities	977,897
Total Liabilities	**72,256,317**
Net Assets	**45,979,405**
Investments by Al Quds Bank (Monetary and in-kind amount)	
Value of shares granted to Jordan Kuwait Bank	14,959,150
Monetary value of JKB	33,380,895
Total amount paid as an investment by Al Quds Bank (Monetary and in-kind amount)	**48,340,045**
Goodwill*	**2,360,640**

* After Al Quds Bank recorded the acquisition of the assets and liabilities of Jordan Kuwait Bank in Palestine, resulting in a goodwill of USD 2,360,640. The management did not distribute the purchase price until the date of preparation of these financial statements. The International Financial Reporting Standards allow for a grace period of one year to distribute goodwill on assets and liabilities.

14. Other Assets

	2018 USD	2017 USD
Claims under collections	**24,343,526**	28,003,410
Accrued interests	**3,685,186**	2,856,403
Assets repossessed as settlement of debts (*)	**803,141**	1,328,385
Assets held for sale	**318,350**	1,431,480
Prepaid expenses	**2,095,109**	1,582,253
Payments to investment account	**1,446,911**	1,369,467
Refundable legal fees	**390,971**	414,272
Deferred tax assets	**1,066,727**	1,066,727
Stationery and publications inventory	**203,256**	379,621
Others	**3,558,493**	3,279,657
	37,911,670	41,711,675

(*) 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:

	2018 USD	2017 USD
Balance, beginning of the year	**1,328,385**	1,328,385
Less: Disposed properties	**(171,360)**	-
Transferred to assets held for sale	**(318,350)**	-
Provision for Impairment	**(35,534)**	-
Balance, end of the year	**803,141**	1,328,385

15. Deposits at Palestine Monetary Authority:

	2018 USD	2017 USD
Deposits at Palestine Monetary Authority / maturing within 3 months	**40,576,000**	67,336,229
	40,576,000	67,336,229

16. Balances at banks and financial institutions

	2018 USD	2017 USD
Local banks and financial institutions:		
Current and on demand accounts	**183,273**	657,261
Deposits maturing within three months	**61,826,245**	11,902,665
Foreign banks and financial institutions:		
Deposits maturing within three months	**4,002,334**	3,000,000
	66,011,852	15,559,926

17. Customer's deposits

	2018	2017
	USD	USD
Current and on demand deposits	**250,182,191**	222,422,153
Saving deposits	**336,160,986**	316,081,999
Term deposits subject to note	**291,335,355**	247,465,894
	877,678,532	785,970,046

- The total public-sector deposits as at December 31, 2018 amounted to USD 9,369,290 representing 1.07% of total deposits against USD 11,199,586 as at December 31, 2017 representing 1.43% of total deposits.

- The total non-interest bearing deposits as at December 31, 2018 amounted to USD 250,128,487 representing 28.49% of total deposits against 222,749,634 USD representing 28.34% of total deposits as at December 31, 2017

- The total dormant deposits as at December 31, 2018 amounted to USD 28,263,561 representing 3.2% of total deposits against USD 22,092,251 representing 2.81% of total deposits as at December 31, 2017

- The total customers' deposits in foreign currencies as at December 31, 2018 amounted to USD 522,462,461 against USD 431,185,948 as at December 31, 2017

- The total non-resident customers' deposits as at December 31, 2018 amounted to USD 19,379,067 against USD 15,831,659 as at December 31, 2017.

18. Cash margins

	2018	2017
	USD	USD
Cash margins against direct facilities	**61,206,440**	45,626,165
Cash margins against indirect facilities	**5,796,260**	9,777,581
Other cash margins	**14,446,560**	13,975,134
	81,449,260	69,378,880

19. Borrowed funds

This amount represents the outstanding balance of the Palestine Mortgage and Housing Corporation as at December 31, 2018 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.

20. Tax provision

The movement on the provision for income tax for the year ended December 31, 2018 and the year ended December 31, 2017 was as follows:

	2018	2017
	USD	USD
Balance, beginning of the year	**2,051,998**	161,672
Provision for the year	**3,737,922**	4,002,300
Incentive tax discounts	**(189,220)**	(102,300)
Paid during the year	**(3,647,996)**	(2,009,674)
Balance, end of the year	**1,952,704**	2,051,998

20. Tax provision (Continued)

A final settlement with the income tax department till the end of the year 2017 was conducted.

Income tax provision for the years ended December 31, 2018 and 2017 was calculated according to applicable laws and regulations and International Financial Reporting Standards.

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

	2018	2017
	USD	USD
Accounting profit of the Bank	**15,144,543**	15,080,462
VAT taxable profit	**10,959,895**	9,161,797
Less:		
VAT	**(1,511,710)**	(1,263,696)
Taxable profit for income tax, net of VAT	**7,127,705**	9,687,094
Income tax	**770,000**	1,453,064
Total calculated income tax and VAT	**2,281,710**	2,716,760
Income tax allocated for the year	**3,737,922**	4,002,300
Incentive tax discounts	**(189,220)**	(102,300)
Tax expense stated in the statement of income of the year	**3,548,702**	3,900,000

21. Sundry provisions:

December 31, 2018	**Beginning balance USD**	**Provision for the year USD**	**Paid during the year USD**	**Ending balance USD**
Provision for end of service indemnity	**5,063,104**	**1,517,095**	**(623,999)**	**5,956,200**
Provision for lawsuits	**100,000**	**7,494**	--	**107,494**
	5,163,104	**1,524,589**	**(623,999)**	**6,063,694**

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

22. Other liabilities

	2018 USD	2017 USD
Accrued and unpaid interests	**2,827,552**	2,233,884
Accrued and unpaid expenses	**1,366,071**	998,171
Checks and outstanding money transfer orders	**15,410,131**	13,181,504
Temporary accounts	**953,000**	1,233,309
Accrual for Directors' remuneration	**362,500**	300,000
Accounts payable	**2,434,246**	3,495,514
Taxes deducted from customers and employees' salaries	**117,024**	217,202
Unpaid cash dividends	**224,859**	63,983
Net forward currency exchange deals	**103,248**	929,358
Received commissions that are not due	**3,584,459**	4,359,499
Provision for expected losses / statutory accounts*	**142,268**	-
Others	**29,841**	44,565
	27,555,199	27,056,989

* The movement on balances of indirect credit facilities during the year is as follows:

	Stage (1) USD	Stage (2) USD	Stage (3) USD	Total USD
Total exposure, beginning of the year	**68,845,478**	--	--	**68,845,478**
Exposures during the year	**40,538,381**	--	--	**40,538,381**
Losses paid during the year	**(38,250,006)**	--	--	**(38,250,006)**
Transferred to stage 1	**71,133,853**	--	--	**71,133,853**
Transferred to stage 2	--	--	--	--
Transferred to stage 3	--	--	--	--
Bad debt exposure	--	--	--	--
Total exposure, end of the year	**71,133,853**	--	--	**71,133,853**

The movement in the provision for expected credit losses is as follows:

	Stage (1) USD	Stage (2) USD	Stage (3) USD	Total USD
Balance, beginning of the year (before adjustment)	--	--	--	--
Effect of application of IFRS 9 regarding impairment	137,691	--	--	**137,691**
Balance, beginning of the year (adjusted)	**137,691**	--	--	**137,691**
Exposures during the year	4,577	--	--	**4,577**
Total effect on exposure as a result of reclassification between stages	**4,577**	--	--	**4,577**
Balance, end of the year	**142,268**	--	--	**142,268**

23. Paid-in capital

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 2018, the paid-in capital was increased by an amount of USD 15,194,667 through issuing shares and distribute bonus shares to become USD 83,570,667 as at December 31, 2018.

Capital adequacy of the Bank

The main objective of the Bank's capital management is to maintain appropriate capital ratios to support the Bank's activity and maximize equity.
The Bank manages the capital structure and makes necessary adjustments in light of changes in economic conditions and the nature of the business. The Bank has not made any changes to the objectives, policies and procedures relating to capital structure during the current period.

The basic and regulatory capital details are as follows:

	December 31, 2018			December 31, 2017		
	Amount USD	**Ratio to risk-weighted assets %**	**Ratio to assets %**	Amount USD	Ratio to risk-weighted assets %	Ratio to assets %
Basic capital	**100,121,554**	**12.33**	**8.25**	86,182,956	11.78	8.01
Regulatory capital	**105,708,921**	**13.02**	**8.71**	95,275,549	13.02	8.86

24. Dividends

For 2018

On its meeting held on April 12, 2018 the Bank's General Assembly approved distribution of dividends representing bonus shares of 10% totaling USD 6,837,600. As well as distribution of cash dividends of USD 6,837,600 representing of 10% of the banks paid-in capital on that date.

For 2017

On its meeting held on May 8, 2017 the Bank's General Assembly approved distribution of dividends representing bonus shares of 12% totaling 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 capitalizing a part of the cyclical fluctuations reserve of USD 3,327,181 and capitalizing USD 3,998,819 from retained earnings.

25. Share premium

As explained in Note 13, during the current year, an agreement was signed between Al Quds Bank and Jordan Kuwait Bank to combine the Jordan Kuwait Bank Palestine Bank for Al Quds Bank which was issued through the issuance of 10% of the Quds Bank's shares after the increase in favor of the Jordan Kuwait Bank – Palestine With a nominal value of USD 8,357,067 and a premium of USD 6,602,083.

26. Reserves

Statutory reserve:

In accordance with the companies 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 25% of the Bank's capital as per the company's laws and 100% according to PMA laws and regulations. This reserve must not be distributed to the Bank's shareholders without the prior approval from Palestine Monetary Authority.

General banking risk reserve

This item represents the value of the risk reserve deducted in accordance with the instructions of the Palestine Monetary Authority No. 6/2015 by 1.5% of the direct credit facilities after the provision for impairment of credit facilities and retained earnings and 0.5% of indirect credit facilities. According to the circular of the Palestine Monetary Authority (No. 53/2013), a general bank risk reserve is not set up against direct credit facilities granted to small and medium-sized enterprises if they meet the conditions stipulated in the circular. No part of this reserve may be used or reduced in any way without the prior approval of the Palestine Monetary Authority.

In accordance with the instructions of the Palestine Monetary Authority No. (2) for the year 2018 and for the purpose of recording the effect of applying the expected credit losses on the opening balances, the credit losses related to the first and second phases (general provision) will be deducted from the general bank risk reserve account. (In relation to the first and second phases) at the expense of retained earnings. If the general bank risk reserve exceeds the expected credit losses for the first and second phases, the excess amount is retained in the reserve account and is not disposed of. According to the circular issued must restrict credit losses for phase III (special provision) directly in the retained earnings account so that does not exploit any remaining balance in the general banking risk reserve for this purpose account.

Procyclicality reserve

This item represents the value of the risk reserve deducted in accordance with the instructions of the Palestine Monetary Authority No. 1/2018, whereby each bank must establish a periodic Procyclicality reserve in accordance with the rate determined by the Palestine Monetary Authority, which will be between 2-2.5% of risk weighted assets. In accordance with the above instructions, the Bank should reevaluate the periodic Procyclicality reserve based on the rates determined by the Palestine Monetary Authority on a semi-annual basis and assign the additional value to the Bank's financial statements. The rates determined in accordance with the instructions of the Monetary Authority for 2018 are 0.57% of the risk weighted assets taking into consideration that the impact on the financial statements of the Bank will be reversed at the end of 2018 and added to the previously formed reserve. It is prohibited to dispose of the Procyclicality reserve for any purpose without the prior approval of the Palestine Monetary Authority, including the previously formed reserve based on the previous relevant instructions.

27. Retained earnings

	2018 USD	2017 USD
Balance, beginning of the year (before adjustment)	**15,666,791**	5,065,545
Effect of application of IFRS 9 regarding impairment	**(645,654)**	--
Balance, beginning of the year (adjusted)	**15,021,137**	5,065,545
Net profit for the year	**11,595,841**	11,180,462
Proceeds of financial assets recognized directly in retained earnings	**(273,844)**	6,999,481
Bonus shares distribution	**(6,837,600)**	(3,998,819)
Cash distribution	**(6,837,600)**	--
Transferred to statutory reserve	**(1,159,584)**	(1,118,046)
Transferred to Procyclicality reserve	--	(1,677,069)
Transferred to a general banking risk reserve	**(3,182,400)**	(784,763)
Balance, end of the year	**8,325,950**	15,666,791

28. Interest income

	2018 USD	2017 USD
Loans	**40,381,370**	34,190,449
Current accounts and overdraft accounts	**6,965,275**	8,226,836
Discounted bills	**732,985**	624,672
Balances at banks and financial institutions	**1,016,574**	902,377
Currency exchange differences	**1**	37,823
Credit cards	**1,552,220**	1,670,753
Financial assets at amortized cost	**824,884**	598,813
	51,473,309	46,251,723

29. Interest expense

	2018 USD	2017 USD
Interest on customer's deposits		
Customers time deposits	**9,679,756**	8,134,967
Customers saving deposits	**1,400,658**	1,643,266
Customers current and demand deposits	**112,315**	123,644
	11,192,729	9,901,877
Interest on banks and financial institutions	**679,953**	666,684
Interest on Palestine Monetary Authority deposits	**569,953**	324,413
Others		
Interest paid for cash margins	**759,347**	657,918
Cost of swaps financing	-	18,557
	759,347	676,475
	13,201,982	11,569,449

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30. Net commission's income

	2018 USD	2017 USD
Commission income		
Direct credit facilities	**6,484,062**	5,099,387
Indirect credit facilities	**719,429**	918,532
Others	**5,780,584**	6,224,381
	12,984,075	12,242,300
Commission expense		
Local banks and institutions	**64,782**	53,641
Foreign banks and institutions	**316,928**	332,697
Commission paid on cards and money transports	**2,123,144**	1,858,983
	2,504,854	2,245,321
Net	**10,479,221**	9,996,979

31. Net gain from financial assets

	2018 USD	2017 USD
Unrealized (loss) gains from revaluation of financial assets at fair value through statement of income	**(12,754)**	6,440
Dividend income	**84,584**	519,651
	71,830	526,091

32. Other revenues

	2018 USD	2017 USD
Safe boxes rental	**54,492**	57,291
Postal, fax, telegram and telephone revenue	**118,080**	207,050
Other miscellaneous income	**356,482**	329,424
Income from Checkbooks	**338,452**	425,503
	867,506	1,019,268

33. Personnel expenses

	2018 USD	2017 USD
Salaries, wages and benefits	**14,442,122**	13,570,689
Bank's contribution in provident fund (*)	**645,913**	572,948
VAT on payroll	**2,320,481**	2,055,009
Medical expenses	**778,961**	718,214
Staff training expenses	**342,375**	332,824
Travel and transportation expenses	**382,832**	316,833
Employees' leave allowance	**60,881**	98,393
Employees' life insurance	**88,664**	73,545
Employees' uniform	**80,737**	78,975
	19,142,966	17,817,430

33. Personnel costs (Continued)

(*) 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.

34. Other operating expenses

	2018 USD	2017 USD
Rents	**1,695,039**	1,542,233
Deposit insurance fee *	**2,267,410**	2,369,177
Insurance charges	**168,845**	152,252
Water, electricity and fuel	**754,362**	738,017
Cleaning expenditures	**362,709**	298,428
Maintenance and repairs	**1,091,438**	1,035,439
Hospitality	**109,589**	107,808
Meeting expenses	**196,858**	247,835
Advertising and publicity	**710,579**	578,578
Fees, licenses and subscriptions	**496,250**	476,982
Donations and sponsorships**	**799,414**	1,155,754
Services	**266,308**	214,487
Stationery, printing and checkbooks	**384,061**	458,206
Mail, phone and swift	**1,634,354**	1,432,610
Software	**421,823**	154,086
Fees and taxes	**265,357**	222,980
Consulting and legal fees	**714,792**	412,897
Lawsuits expenses	**10,422**	--
Vehicle and transportation expenses	**198,257**	181,408
Board of Directors' expenses and remuneration	**582,797**	413,336
Clearing expenses	**440,395**	441,123
Other expenses	**37,787**	33,043
Loss from disposal of property and equipment	**120,954**	36,320
	13,729,800	12,702,999

* According to the Palestine Deposit Insurance Corporation Law No. (7) for the year 2013, the Bank has deducted 0.3% of the total deposits for the Palestine Deposit Insurance Corporation. All banks are required to pay annual subscription fee starting from the year 2014
** Total Bank's contribution for social responsibility amounted to USD 799,414 for the year 2018, which represents 6.89% of the profits compared to USD 1,155,754 during the year 2017 which represents 10.34% of the profits.

35. Business sectors

The Bank's businesses are divided into three major business segments:
Individuals sector: banking business for individuals consists of personal current accounts, savings accounts, deposits, credit cards and loans.
Companies and institutions sector: includes follow-up of deposits, credit facilities and other banking services.
Treasury business sector: includes trading services, financial market and foreign exchange transactions and management of bank resources and investments.

	Individuals USD	Companies and institutions USD	Treasury USD	Others USD	2018 USD	2017 USD
Total revenues	23,082,638	26,549,213	9,533,144	11,346,726	70,511,721	65,482,225
Provision for impairment of facilities, net	(2,859,588)	(1,882,053)	-	-	(4,741,641)	(1,842,863)
Business sector results	20,223,050	24,667,160	9,533,144	11,346,726	65,770,080	63,639,362
Unallocated expenses	-	-	-	-	(50,625,537)	(48,558,900)
Profit before taxation	-	-	-	-	15,144,543	15,080,462
Tax expense	-	-	-	-	(3,548,702)	(3,900,000)
Net profit for the year	-	-	-	-	11,595,841	11,180,462
Other information:						
Sectors' assets	268,844,303	406,634,526	463,687,474	73,858,825	1,213,025,128	1,075,629,534
Sectors' liabilities	578,072,102	381,350,467	106,587,852	35,571,598	1,101,582,019	972,898,860
Capital expenditures	-	-	-	-	5,647,060	6,282,651
Depreciation and amortization	-	-	-	-	2,840,766	2,597,551

Concentration of credit exposures in terms of geographical distribution

	Inside Palestine		Outside Palestine		Total	
	2018 USD	2017 USD	2018 USD	2017 USD	2018 USD	2017 USD
Profit for the year	10,365,922	9,809,837	1,229,919	1,370,625	11,595,841	11,180,462
Assets	1,104,498,833	1,016,415,736	108,526,295	59,213,798	1,213,025,128	1,075,629,534
Capital expenditures	5,647,060	6,282,651	-	-	5,647,060	6,282,651

36. Concentration of credit exposures in terms of geographical distribution

2018	Palestine USD	Jordan USD	Israel USD	Others USD	Total USD
Cash and balances at Palestine Monetary Authority	252,146,806	-	-	-	252,146,806
Balances at banks and financial institutions	60,143,436	22,841,366	31,397,611	46,420,873	160,803,286
Financial assets at fair value through statement of income	90,506	-	-	-	90,506
Direct credit facilities	697,803,505	-	-	-	697,803,505
Financial assets through other comprehensive income	3,176,667	1,125,528	-	1,361,285	5,663,480
Financial assets at amortized cost	10,688,065	7,764,947	-	-	18,453,012
Investments in associate companies	1,433,126	-	-	-	1,433,126
Property and equipment	32,584,888	-	-	-	32,584,888
Projects under construction	3,718,633	-	-	-	3,718,633
Intangible assets	2,416,216	-	-	-	2,416,216
Other assets	37,911,670	-	-	-	37,911,670
	1,102,113,518	31,731,841	31,397,611	47,782,158	1,213,025,128
Unutilized credit facilities limits	25,018,420	-	-	-	25,018,420
Letter of guarantees	34,937,152	-	-	-	34,937,152
Letters of credit	9,969,753	-	-	-	9,969,753
Acceptable withdrawals and policies	1,208,528	-	-	-	1,208,528
	71,133,853	-	-	-	71,133,853

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36. Concentration of credit exposures in terms of geographical distribution. (Continued)

2017	Palestine USD	Jordan USD	Israel USD	Others USD	Total USD
Cash and balances at Palestine Monetary Authority	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 other comprehensive income	3,058,329	-	-	-	3,058,329
Financial assets at amortized 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
Other assets	41,711,675	-	-	-	41,711,675
	1,016,415,736	17,372,925	11,473,483	30,367,390	1,075,629,534
Unutilized 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

37. Contingent liabilities (off statement of financial position)

The Bank issues various contingent financial commitments to meet the financial needs of its customers. Although these liabilities may not be recognized in the statement of financial position, they still involve credit risk and are therefore part of the Bank's overall risk. In many cases, the amount recognized in the statement of financial position of the obligation incurred does not represent the full potential loss of the contract.

	2018 USD	2017 USD
Unutilized credit facilities limits	25,018,420	19,591,738
Letter of guarantees	34,937,152	57,667,325
Letters of credit	9,969,753	7,062,311
Acceptable withdrawals and policies	1,208,528	3,975,218
	71,133,853	88,296,592

38. Related parties 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:

	2018		
	Board of directors and executive management	Others	Total
Statement of financial position items	USD	USD	USD
Direct facilities	5,393,093	22,007,603	27,400,696
Deposits	1,796,519	1,507,254	3,303,773
Accrued benefits	362,500	-	362,500
Contingences			
Indirect facilities	66,389	1,015,045	1,081,434
Statement of income items			
Interest and commissions income	229,393	1,132,058	1,361,451
Interest and commissions expense	6,132	144	6,276
Salaries and benefits	1,595,912	-	1,595,912
Board of directors' meeting fees	582,798	-	582,798

38. Related party transactions (Continued)

	2017		
Statement of financial position items	Board of directors and executive management USD	Others USD	Total USD
Direct facilities	6,166,360	26,957,559	33,123,919
Deposits	29,262,500	-	29,262,500
Accrued benefits	300,000	-	300,000
Contingences			
Statement of financial position items			
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
Board of directors' meeting fees	413,336	-	413,336

	% of net facilities	% of capital base	Classified	Related provisions
For the year ended December 31, 2018				
Facilities to related parties				
Related parties				
Board of Directors and executive management	%0.77	%5.10	-	-
Other related parties	%3.15	%20.82	-	-
			-	-
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	-	-
			-	-

39. Cash and cash equivalents

	2018 USD	2017 USD
Cash and balances with Palestine Monetary Authority	**252,146,806**	257,491,000
Balances at banks and financial institutions maturing within three months	**153,852,600**	71,970,257
	405,999,406	329,461,257
Less:		
Deposits of banks and financial institutions and PMA maturing within three months	**(106,587,852)**	(82,896,155)
Requirements of statutory cash reserve	**(83,670,942)**	(72,687,845)
	215,740,612	173,877,257

40. 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 labor and other claims. There are 34 lawsuits for 2018 against 42 lawsuits for 2017. The legal department of the Bank believes that the amount of lawsuits that may result in future liabilities is USD 3,092,772 for 2018 against USD 3,153,636 for 2017. The provision made for lawsuits amounted to USD 107,494 for 2018 against 100,000 for 2017. According to the Bank's legal advisor, this provision is sufficient to cover such lawsuits.

41. Palestine Monetary Authority fines

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

42. 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.

	2018 USD	2017 USD
Profit for the year	**11,595,841**	11,180,462
Outstanding weighted average number of shares	**77,999,289**	68,376,000
Basic and diluted earnings per share of profit for the year	**0.149**	0.164

43. Fair Value Measurement

The value of assets and liabilities not represented in fair value throughout the financial statements have no material difference from its book value.

The Bank uses the following hierarchy for determining and disclosing the fair value of its financial instruments:
Financial instruments which have close fair value and book value, which acts for monetary assets and liabilities or assets and liabilities matures in three months or less and has near fair value and book value.

Financial instruments with fixed interest rate, fair value of amortized assets and liabilities with fixed interest rate is estimated right through comparing discounted cash flows using market interest rates at the time of insertion to current market prices for similar instruments.

The table below discloses an analysis for financial instruments measured at fair value after initial date of recognition:

- Level (1): by using quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level (2): by using other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.
- Level (3): by using techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

Some financial assets are valued at fair value at the end of each financial period. The table below provides information on how to determine the fair value of these financial assets (valuation methods and inputs used).

	2018		2017	
Assets	**Carrying amount USD**	**Fair value USD**	Carrying amount USD	Fair value USD
Cash and balances at Palestine Monetary Authority	**252,146,806**	**252,146,806**	257,491,000	257,491,000
Balances at banks and financial institutions	**160,803,286**	**160,803,286**	71,970,257	71,970,257
Direct credit facilities	**697,803,505**	**697,803,505**	658,517,963	658,517,963
Financial assets at fair value through statement of income	**90,506**	**90,506**	103,260	103,260
Financial assets at fair value through statement of comprehensive income	**5,663,480**	**5,663,480**	3,058,329	3,058,329
Investments in associate company	**1,433,126**	**1,433,126**		
Financial assets at amortized cost	**18,453,012**	**18,453,012**	9,409,145	9,409,145
Liabilities				
Banks and financial institutions deposits and Palestine Monetary Authority	**106,587,852**	**106,587,852**	82,896,155	82,896,155
Customers' deposits	**877,678,532**	**877,678,532**	785,970,046	785,970,046
Cash margins	**81,449,260**	**81,449,260**	69,378,880	69,378,880
Borrowed funds	**294,778**	**294,778**	381,688	381,688

43. Fair Value Measurement (Continued)

As at December 31, 2018	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets at fair value through statement of comprehensive income	**USD**	**USD**	**USD**	**USD**
Quoted shares	4,861,144	--	--	**4,861,144**
Unquoted shares	--	--	802,336	**802,336**
	4,861,144	--	**802,336**	**5,663,480**
Financial assets at fair value through statement of income				
Investments in local shares	90,506	--	--	**90,506**
	90,506	--	--	**90,506**

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

44. Risk Management

The inherent risks associated with the Bank's activities are managed, measured and monitored on an ongoing basis to remain within the permissible limits. Due to the importance of the risk management process to the Bank's profits, the supervisory functions and responsibilities associated with these risks are distributed to the employees. The Bank is exposed to credit risk, liquidity risk and market risk that represent trading and hedging risks, as well as operational risk.

Risk management process

The Bank's Board of Directors is responsible for the identification and control of risks. In addition, several other entities are responsible for the risk management process of the Bank and its branches in all areas of its existence.

Risk Committee

It is the responsibility of the Risk Committee to develop the risk strategy and apply the principles, general frameworks and limits permitted.

Measuring Risks and the Reporting Systems

Risks are monitored and controlled by checking the pre-set limits for each type of risk. These limits reflect the Banks' strategy and the various surrounding market factors, in addition to the acceptable level of risk while focusing on certain financial sectors. Moreover, information is gathered from the various departments and then analyzed for early identification of potential risks arising from these departments. The information is presented to the Board of Directors, the Audit Committee, and reporting Head of each department.

44. Risk Management (Continued)

Business units

Represents employees that are part of first line defense, 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 defense, 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 defense. Compliance management employees ensure compliance with laws and regulations and instructions issued by Palestine Monetary Authority and other regulatory bodies and sound banking practices.

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 maximize 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

- Ensure the independence of risk management
- Ensure the Bank's commitment to the instructions of the PMA

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.

44. Risk Management (Continued)

Internal Audit Department

The internal audit employees represent the third line of defense 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.

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.

(I) Credit risk

Credit risk is the risk that the other party's default or inability to meet its obligations to the Bank could result in loss. The Bank manages credit risk by setting limits on the amount of loans and advances (individual or institution) and total loans and debts granted to each sector and geographical area. The Bank also monitors credit risk and continuously evaluates the creditworthiness of customers, Customers.

As well as the risk of customer credit concentrations which are defined as the risks to the Bank as a result of the unequal distribution of credit customers or as a result of concentrations in facilities granted to economic sectors, which may lead to increased probability of financial losses.

Details of loans and advances and financing activities of customers and the Bank's liabilities outside the financial position exposed to credit risk are disclosed in the notes to the financial statements. The Bank limits the risk of concentration of assets and liabilities through the distribution of its activities in several sectors.

Credit risk in respect of cash and cash equivalents

Cash and cash equivalents represent the maximum exposure to credit risk. Cash and cash equivalents are held with the Palestine Monetary Authority and with banks and other financial institutions.

Investment in securities

All investments in securities (bonds) at amortized cost are no longer than maturity and are not impaired and their credit rating is highly rated.

44. Risk Management (Continued)
(I) Credit risk (Continued)

Credit risk management

Credit risk is managed by:

- Promote the building of a good and balanced credit portfolio that achieves the target return within its defined risk levels.
- Strict control of credit in its various stages and consistent compliance with the instructions of the regulatory authorities and their amendments.
- Work on the distribution of the credit portfolio, including expanding the customer base according to specific plans, ceilings and risks.
- Continuing to work within the principle of separating the functions of customer relationship management, credit analysis and credit control.
- Credit is granted on the basis of eligibility and repayment ability, bearing in mind that there are no restrictions on borrowing or foreclosure in the Memorandum of Association and the Company's Articles of Association and the Bank's belief in the ability of customers to meet their obligations based on a comprehensive credit study.
- Not to allow the financing of facilities except for the purposes specified in the Bank's credit policy, the instructions of the Palestine Monetary Authority, the Banking Law and any instructions issued by the regulatory authorities, and the appropriate guarantees that guarantee the Bank's right.
- Reduce the non-performing debt ratio in the credit portfolio while increasing market share in commercial finance and corporate finance.
- Take into consideration the diversification of the credit portfolio, especially in the corporate portfolio, while avoiding the concentration of client-level concentration over the prescribed limits.

Significant increase in credit risk

In determining whether the risk of irregularity of a financial instrument is significant since the initial recognition and when estimating the expected credit loss, the Bank takes into account relevant and reasonable information that is available without cost or undue effort. This includes both quantitative and qualitative information, including the internal credit risk rating system, external risk ratings, where available, delayed payment of accounts, credit judgment and relevant historical experience, where possible. The Bank may also decide that exposure has been subject to a significant increase in credit risk based on qualitative indicators that the Bank considers to be indicators and may not be fully reflected in its quantitative analysis in a timely manner.

In determining whether the credit risk has increased significantly since the initial recognition, the following criteria are observed:

- Credit reduction
- Restructuring facilities during the previous 12 months
- 30 days late payment facility as at the reporting date

44. Risk Management (Continued)
(I) Credit risk (Continued)
Credit risk ratings

Credit risk ratings are defined using qualitative and quantitative factors that indicate the risk of irregularity. These factors vary depending on the nature of the exposure and the type of borrower. Exposure to risk is subject to continuous monitoring, which may lead to exposure to different credit risks.

Stumbling and stumbling mechanism:
The default is the emergence of entitlements on customer facilities more than 90 days and a significant increase in risk levels, in addition to any signs indicating the existence of a probability of failure in the customer calls for the inclusion of some customers within the concept of stumbling, including but not limited to

- Significant financial difficulties faced by the debtor as a severe weakness in the financial statements.
- extinguish part of the obligations incurred by the debtor as a result of financial difficulties.
- Non-payment of obligations on time.

Internal credit rating systems:
Internal rating system for corporate clients:
Is a system designed to assess and measure the risks of corporate clients in a comprehensive manner by extracting the degree of customer risk associated with the probability of customer failure (PD) based on the financial and objective data, and also to extract the expected losses of the customer facilities (EL) through the degree of customer risk and losses at default (LGD) and associated with the guarantees provided.

The Bank has a different model system and evaluation cards to cover most customer segments. Each model is divided into several sections. Each department is linked to the existence of risk weights and according to the model used. The risk score is calculated through these models / cards by collecting the results of the extracts (financial and objective) and then perform calculations to extract the so-called average assessment and is shown in the form of consecutive characters.

The principles used in the evaluation process within the internal evaluation system for corporate clients:
Provides up-to-date and audited financial statements that reflect the actual financial situation of the credit applicant.
There is a clear perception in the credit granting body of the objective aspects related to the customer's situation (management, customer sector, competitive situation, etc.) because of the objective aspect of the impact of the customer risk assessment results.

- Provide sufficient data on the collateral provided by the client to enable risk assessment of the facility.
- The annual update of the probability of default according to the latest studies, taking into account the reason for the historical stumbling of the portfolio for each classification.
- Choose the appropriate analysis model that fits the customer's nature.
- The supervision option is used to preserve the customer's historical risk levels and are approved within the credit study.

44. Risk Management (Continued)
(I) Credit risk (Continued)

Internal Evaluation System for Individuals and Small Business Customers:

- It is a system that evaluates customers (individuals and small companies) and gives them a degree of assessment of the number of days due to customers where the classification is in three stages, not due and due from 30 days to 90 days and due more than 90 days.

Definition of expected credit losses:
The expected credit losses represent the total amounts that are recorded to cover losses arising from customers' failure to meet their obligations, which is the amount of the balance multiplied by default, multiplied by the probability of default and multiplied by losses on default.

Notes to the Financial Statements
For the year ended December 31, 2018

44. Risk Management (Continued)
(I) Credit risk (Continued)

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

The following is the distribution of credit exposures for direct facilities according to the classification stages in accordance with International Financial Reporting Standard No. 9 of 2018:

	Individuals USD	Real estate loans USD	Corporates USD	Small and medium companies USD	Government and public sector USD	Total USD
2018						
Stage (1)	171,251,775	26,994,482	193,916,092	184,716,487	25,225,150	602,103,986
Stage (2)	69,832,632	3,169,233	3,196,933	15,980,291	–	92,179,089
Stage (3)	11,763,837	259,757	2,693,949	9,926,504	–	24,644,047
Total	252,848,244	30,423,472	199,806,974	210,623,282	25,225,150	718,927,122
Less: Suspended interests	(477,786)	–	(7,823)	(288,263)	–	(773,872)
Less: Impairment provision	(10,713,858)	(561,258)	(1,466,609)	(7,582,795)	(25,225)	(20,349,745)
Net	241,656,600	29,862,214	198,332,542	202,752,224	25,199,925	697,803,505

44. Risk Management (Continued)
(I) Credit risk (Continued)

The following is the distribution of credit exposures for direct credit facilities in accordance with IAS 39 and the Palestine Monetary Authority's instructions for 2017:

2017	Individuals USD	Real estate loans USD	Corporates USD	Small and medium companies USD	Government and public sector USD	Total 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

44. Risk Management (Continued)
(I) Credit risk (Continued)

The fair value distribution of collateral provided against credit facilities is as follows:

2018	Individuals USD	Large companies USD	Small and medium companies USD	Real estate loans USD	Government and public sector USD	Total USD
Total	**16,346,963**	**163,877,124**	**184,446,828**	**46,832,796**	**-**	**411,503,711**
Cash margins	**16,061,117**	**12,438,389**	**32,830,420**	**-**	**-**	**61,329,926**
Property	**-**	**117,445,575**	**150,939,386**	**46,832,796**	**-**	**315,217,757**
Quoted shares	**285,846**	**33,993,160**	**677,022**	**-**	**-**	**34,956,028**
	16,346,963	**163,877,124**	**184,446,828**	**46,832,796**	**-**	**411,503,711**

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

(II) 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, 2018 and 2017.

Notes to the Financial Statements
For the year ended December 31, 2018

December 31, 2018	Up to one month USD	More than one month up to 3 months USD	More than 3 month up to 6 months USD	More than 6 month up to one year USD	More than one year up to 3 years USD	More than 3 years USD	No maturity USD	Total USD
Assets								
Cash and balances at Palestine Monetary Authority	238,918,220	13,228,586	-	-	-	-	-	252,146,806
Balances at banks and financial institutions	143,386,460	10,364,640	7,052,186	-	-	-	-	160,803,286
Financial assets at fair value through statement of income	-	-	-	-	-	-	90,506	90,506
Direct credit facilities - net	36,587,322	27,891,952	47,923,964	44,532,340	59,268,178	481,599,749	-	697,803,505
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	5,663,480	5,663,480
Financial assets at amortized cost	-	1,407,833	6,357,113	-	8,918,066	1,770,000	-	18,453,012
Investment in associate company							1,433,126	1,433,126
Property and equipment	-	-	-	-	-	-	32,584,888	32,584,888
Projects under construction	-	-	-	3,718,633	-	-		3,718,633
Intangible assets	-	-	-	2,360,640	-	-	55,576	2,416,216
Other assets	24,297,050	46,476	-	9,542,044	2,188,218	1,446,911	390,971	37,911,670
Total assets	443,189,052	52,939,487	61,333,263	60,153,657	70,374,462	484,816,660	40,218,547	1,213,025,128
Liabilities								
Banks and financial institutions deposits and Palestine Monetary Authority	92,599,352	13,988,500	-	-	-	-	-	106,587,852
Customers' deposits	295,853,118	185,750,265	148,196,939	176,692,522	66,753,679	4,432,009	-	877,678,532
Cash margins	5,669,312	3,954,840	6,984,785	11,266,014	4,856,933	48,717,376	-	81,449,260
Borrowed funds	-	-	-	-	294,778	-	-	294,778
Sundry provision	-	-	-	-	6,063,694	-	-	6,063,694
Tax provision	-	-	-	1,952,704	-	-	-	1,952,704
Other liabilities	15,410,131	953,000	3,138,627	8,053,441	-	-	-	27,555,199
Total liabilities	409,531,913	204,646,605	158,320,351	197,964,681	77,969,084	53,149,385	-	1,101,582,019
Shareholders' equity	-	-	-	-	-	-	111,443,109	111,443,109
Total liabilities and shareholders' equity	409,531,913	204,646,605	158,320,351	197,964,681	77,969,084	53,149,385	111,443,109	1,213,025,128
Gap in financial statements	33,657,139	(151,707,118)	(96,987,088)	(137,811,024)	(7,594,622)	431,667,275	(71,224,562)	-
Cumulative gap in liquidity risk	33,657,139	(118,049,979)	(215,037,067)	(352,848,091)	(360,442,713)	71,224,562	-	-

December 31, 2017	Up to one month USD	More than one month up to 3 months USD	More than 3 month up to 6 months USD	More than 6 month up to one year USD	More than one year up to 3 years USD	More than 3 years USD	No maturity USD	Total USD
Assets								
Cash and balances at Palestine Monetary Authority	257,491,000	-	-	-	-	-	-	257,491,000
Balances at banks and financial institutions	59,612,317	12,357,940	-	-	-	-	-	71,970,257
Financial assets at fair value through statement of income	-	-	-	-	-	-	103,260	103,260
Direct credit facilities - net	37,909,453	18,154,222	29,122,993	69,972,454	46,655,418	456,703,423	-	658,517,963
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	3,058,329	3,058,329
Financial assets at amortized cost	-	-	-	-	5,639,145	3,770,000	-	9,409,145
Investment in associate company	-	-	-	-	-	-	30,278,332	30,278,332
Property and equipment	-	-	-	3,067,092	-	-	-	3,067,092
Projects under construction	-	-	-	-	-	-	22,481	22,481
Intangible assets	-	-	-	-	1,066,727	-	-	1,066,727
Other assets	-	27,106,598	4,160,285	4,721,738	4,656,327	-	-	40,644,948
Total assets	355,012,770	57,618,760	33,283,278	77,761,284	58,017,617	460,473,423	33,462,402	1,075,629,534
Liabilities								
Banks and financial institutions deposits and Palestine Monetary Authority	59,114,855	23,781,300	-	-	-	-	-	82,896,155
Customers' deposits	276,119,432	152,947,459	137,017,686	162,819,501	57,065,968	-	-	785,970,046
Cash margins	4,483,460	1,912,658	3,068,285	7,372,024	4,915,433	47,627,020	-	69,378,880
Borrowed funds	381,688	-	-	-	-	-	-	381,688
Sundry provision	-	-	-	-	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	-	-

Liquidity Coverage:

In 2018, the Palestine Monetary Authority issued Decree No. (4/2018) on the application of the liquidity coverage ratio, which is considered as one of the quantitative reform tools prescribed by the Basel Committee for Banking Supervision. This percentage should not be less than 100% in all cases. The liquidity coverage ratio aims at enhancing the ability of banks to meet liquidity risks in the short term by ensuring that there is sufficient stock of high quality liquid assets to meet the liquidity requirements that may arise according to the stress scenario for 30 days. History of stress and even taking Bank procedures to solve the problem in an orderly manner. The following details the liquidity coverage standard on a compound basis as at December 31, 2018:

	Value in thousand dollars Value before applying discount rates / flows (average)	**Value in thousand dollars Value before applying discount rates / flows (average)**
	USD	**USD**
High quality liquid stocks		
Total high quality assets	--	252,851
cash outflows		
Retail deposits including deposits of small institutions:		
Stable deposits	310,258	15,513
(B) less stable deposits;	224,847	24,619
Deposits and unsecured forms of financing for non-retail and small-scale clients:		
Operating deposits		
Non-operating deposits	311,681	184,007
Deposits and secured financing		
Cash flows from derivatives contracts		
A) Outflows related to net exposure to derivatives;	48,700	48,700
(B) Outflows related to the security requirements of such contracts		
Securities covered by assets, covered bonds, and other structured financing instruments		
Securities covered by assets, securities investment funds, and other similar financing instruments		
Credit lines, non-cancellable credit lines and cancellable lines within a 30-day period	25,018	13,849
Any other external contractual cash flows		
Total outflows	--	288,992
Cash flows		
Secured lending		
Cash flows from regular loans	38,654	19,327
Other inter-contracted cash flows	48,700	48,700
Total cash inflows	247,949	68,027
Total assets of high quality	--	252,851
Net cash outflow	--	220,965
Liquidity Ratio (%)	--	%114

44. Risk Management (Continued)
(II) Liquidity risk

Net fixed funding ratio (NSFR)

The Palestine Monetary Authority (PMA) issued a directive (5/2018) on the application of the ratio of net fixed financing. The ratio of net fixed financing aims to enhance the management of liquidity risk in banks by maintaining more stable sources of financing to adjust the asset entitlements inside and outside the budget. On short-term and unsustainable funding sources.

The Bank's net financing ratio as at December 31, 2018 is as follows:

	Net Fixed Financing Ratio (NSFR)
Numerator of the Percentage	**Value in thousand dollars**
Statement	**Total value (after applying stable financing transactions)**
Regulatory capital	202,173
Retail deposits and small (stable) institutions	316,811
Retail deposits and small-scale institutions (less stable)	340,892
Secured and unsecured financing (deposits)	123,277
Financing and other deposits	-
Derivatives on the liabilities side after derivatives are settled on the asset side	-
Other categories of obligations (not included in the above categories)	-
Total stable funding available	**983,153**
Denominator of the Percentage	
High quality unencumbered first level liquid assets	-
Liquid assets of high-quality Tier II / Class (a):	-
High Level II / Class B liquid assets:	-
Loans:	598,252
Deposits with other financial institutions (authorized to accept deposits) for operational reasons	-
Equity issued by entities other than financial institutions or a subsidiary	1,065
Debt instruments issued or guaranteed by financial institutions and banks	704
Unquoted investments other than the above	16,309
Investments listed other than the above	2,822
Non-performing loans	30,949
All other assets	103,728
Unconditional and unconditional credit and liquidity facilities.	1,251
Other potential future financing commitments:	2,305
Total stable funding required	**757,385**
Net Fixed Financing Ratio (NSRF)	**130%**

44. Risk Management (Continued)

(III) Market Risk

Market risk is defined as the risk that affects the value of the Bank's investments and financial assets resulting from changes in market factors (interest rates, exchange rates, equity prices, commodity prices).

The Bank periodically applies appropriate methodologies for market risk assessment and estimates of potential economic losses based on a range of assumptions and changes in market conditions. These methodologies are applied to measure market risk: Stress testing tests semi-annually.

(IV) Interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and consequently affects the cash flows or the fair value of financial instruments. The Bank is exposed to interest rate risk due to a time lag for repricing between assets and liabilities. These gaps are monitored periodically by the (ALCO) and, if necessary, use several methods to avoid exceeding acceptable limits on interest rate risk.

44. Risk Management (Continued)
Interest rate repricing gap

December 31, 2018

	Re-pricing gap							
	Up to one month USD	From one month to 3 months USD	From 3 months to 6 months USD	From 6 months to one year USD	From one year to 3 years USD	More than 3 years USD	Non-interest bearing items USD	Total USD
Assets								
Cash and balances with PMA	-	13,228,586	-	-	-	-	238,918,220	252,146,806
Balances at banks and financial institutions	26,511,322	10,364,640	7,052,186	-	-	-	116,875,138	160,803,286
Financial assets at fair value through statement of income	-	-	-	-	-	-	90,506	90,506
Direct credit facilities-net	472,237,878	68,240,566	36,736,267	30,174,098	48,902,553	41,512,143	-	697,803,505
Financial assets at fair value through statement of comprehensive income	-	-	-	-	-	-	5,663,480	5,663,480
Cost Financial assets at amortized	-	1,407,833	6,357,113	-	8,918,066	1,770,000	-	18,453,012
Investment in associate company	-	-	-	-	-	-	1,433,126	1,433,126
Property and equipment	-	-	-	-	-	-	32,584,888	32,584,888
Projects under construction	-	-	-	-	-	-	3,718,633	3,718,633
Intangible assets	-	-	-	-	-	-	2,416,216	2,416,216
Other assets	-	-	-	-	-	-	37,911,670	37,911,670
Total assets	498,749,200	93,241,625	50,145,566	30,174,098	57,820,619	43,282,143	439,611,877	1,213,025,128
Liabilities								
Banks, financial institutions deposits and PMA	92,416,079	13,988,500	-	-	-	-	183,273	106,587,852
Customers' deposits	67,179,280	68,481,629	48,518,598	94,604,477	8,119,362	4,432,009	586,343,177	877,678,532
Cash margins	5,669,312	3,954,840	6,984,785	11,266,014	4,856,933	48,717,376	-	81,449,260
Borrowed funds	-	-	-	-	294,778	-	-	294,778
Sundry provision	-	-	-	-	-	-	6,063,694	6,063,694
Tax provision	-	-	-	-	-	-	1,952,704	1,952,704
Other liabilities	-	-	-	-	-	-	27,555,199	27,555,199
Total liabilities	165,264,671	86,424,969	55,503,383	105,870,491	13,271,073	53,149,385	622,098,047	1,101,582,019
Total shareholders' equity	-	-	-	-	-	-	111,443,109	111,443,109
Total liabilities and shareholders' equity	165,264,671	86,424,969	55,503,383	105,870,491	13,271,073	53,149,385	733,541,156	1,213,025,128
Gap in the financial statements	333,484,529	6,816,656	(5,357,817)	(75,696,393)	44,549,546	(9,867,242)	(293,929,279)	-
Cumulative gap in liquidity risk	333,484,529	340,301,185	334,943,368	259,246,975	303,796,521	293,929,279	-	-

44. Risk Management (Continued)

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

44. Risk Management (Continued)

(V) Foreign exchange risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The US dollar is the base currency of the Bank. The Board of Directors sets limits on the financial position of each currency. The foreign currency position is monitored on a daily basis and hedging strategies are followed to ensure that Foreign exchange within approved limits.

(VI) Equity price risk

Equity price risk arises from changes in the fair value of equity investments. The Bank manages these risks by diversifying investments in several geographical regions and economic sectors. Most of the equity investments held by the Bank are listed on the Palestine Securities Exchange.

The following table shows the unrealized gain or loss arising from possible and possible changes in equity prices by 10% with all other effects held constant:

	Change in indicator	Effect on income statement	Effect on equity statement
December 31, 2018			
Securities through the statement of comprehensive income	%10	-	566,348
Securities through the statement of income	%10	9,051	-
December 31, 2017			
Securities through the statement of comprehensive income	%10	-	305,833
Securities through the statement of income	%10	10,326	-

(VII) Operational Risk Operational Risk

Operational risk is defined as "the risk of loss resulting from the failure or inadequacy of internal procedures, the human element, systems or external events, and this definition includes legal risk."

Al-Quds Bank has implemented the Control and Risk Self-Evaluation system to manage operational risk through the use of an automated system for this purpose (CARE System). Al Quds Bank manages the operational risk within the following data:

- Prepare an operational risk management policy approved by the Board of Directors of the Bank.
- Creating risk profiles through which the risks and control procedures of the Bank's important departments are identified.
- Implementing an automated risk management system (CARE System) to implement the self-assessment methodology for risk and control procedures.

44. Risk Management (Continued)

(VII) Operational Risk Operational Risk

- Work on building a database of events resulting from risks and operational errors.
- To give an opinion on the procedures for presenting the risks presented therein and the adequacy of the related control procedures.
- Provide the necessary risk reports to the Risk Management Committees (the Risk Management Committee of the Board of Directors and the Executive Risk Management Committee)

(VIII) Compliance Risk

Compliance risks are defined as the risks of legal or regulatory penalties, material loss or reputational risk that the Bank may be exposed to due to non-compliance with laws, regulations, instructions, directives, codes of conduct, standards and sound banking practices.

Non-compliance with the instructions and laws issued by the various regulatory authorities is one of the most important risks that any bank may face, due to the large financial losses resulting from violating these instructions and laws, which in turn reflects the Bank's reputation. The need to manage compliance risk within the Bank has become a necessity, as the existence of the compliance function leads to increased efficiency in risk management and reduction of costs that may be exposed to the Bank as a result. For failure to comply with the laws and regulations.