بنك القدس
Quds Bank

Annual Report

2019

New Headquarters Building

Under Construction

Table of Contents

General Overview

Since its establishment in 1995, Quds Bank has been growing to become today one of the most outstanding and important banking institutions in Palestine. It provides the Palestinian market with an integrated package of banking and investment services as well as commercial solutions designed to meet the needs of clients, individuals and companies. It also contributes to the national Palestinian economy.

Quds Bank is registered as a public shareholding limited company with a capital of USD 20 million and increased over the years to reach USD 750.172.90 million. This success and development has been achieved thanks to the high professionalism showed in providing an integral set of banking services and products for its clients of individuals, companies and start-ups and thorough use of robust capital base and genuine expertise in exercising its role in finance. Our slogan “the Nation’s and Citizens’ Bank” encapsulates a set of strategic policies and goals set by the Board of Directors. This slogan is chosen in embodiment of Jerusalem as the capital of the independent State of Palestine. It also reflects the Bank’s commitment to making a milestone change in its different operating fields at the national level. Its services are made accessible through its Public Administration in Ramallah and 38 branches and offices based in strategic locations throughout Palestine in addition to its representative office in Jordan’s capital of Amman.

Mission

Quds Bank's mission is to become a distinctive bank in providing inclusive and advanced banking solutions through our services that meet the prospects of our clients and lead them to success.

Vision

Quds Bank seeks to invest in the Palestinian capital to develop the national economy, provide valuable banking solutions for all sectors and improve citizens' life.

Value

Applying the highest levels of professional compliance and best banking transparent and fair standards as well as good governance.

International Awards and Recognition

Quds Bank was awarded a number of international awards thanks to the solid confidence, commitment and friendship it enjoys with all sectors and in recognition of its achievements, outcomes and excellent performance indicators. It was given, by the International Magazine Finance, the award of the best bank specialized in saving account in Palestine. It was also awarded by "the Executive Banking" as the best bank in terms of training and development. Likewise, it was awarded as the best bank in Palestine according to "Financial CPI" which issues the Middle East Banker Magazine. It considered it as one of the biggest 100 banks in the Middle East.
It was accorded these awards in recognition of its effort to develop the banking sector and promote its distinctive position in the sector at local and regional levels and in confirmation of its position as one of the pillars of the banking sector in Palestine. Being accorded these awards, it gets further motivated to develop its services, achieve further success and provide banking services and products that meet the prospects of the bank's clients and push up the Palestinian national economy.

Best Bank In Palestine
Awarded By
CPI Financial
Banker Middle East

Best Specialized Savings Bank
In Palestine
Awarded By
International Finance Magazine

Chairman's Statement

Distinguished Shareholders,

On behalf of the members of the Board of Directors and for me, it is my pleasure to cordially salute and express my sincere gratitude to you.
I'm pleased to present to you the 24th annual report of Quds Bank detailing our achievements of the year of 2019 and the consolidated financial statements of the year ended at31 December 2019. This report also includes the future plan of the bank and shares insight on the requirements of transparency, meeting the rules of good governance and the highest standards as well as the terms and conditions set forth in laws and legislations.
The challenges and difficulties facing Palestine have undoubtedly affected all the sectors, including the banking sector. However, with effective and thorough execution of the standard strategy of the bank, balanced performance and positive connectivity and communication both in the headquarters of the General Administration and the branches of the bank in the regions, it was able to overcome all these obstacles and difficulties.

Distinguished Shareholders,

Quds Bank has maintained its good performance at a steady pace and handled all the challenges efficiently and effectively.
Despite all the challenges, the bank had positive contribution to the national economy with growth in the most significant financial indicators. For instance, the gross income during the year 2019 increased by 8.66% to USD 62.14 million, compared to USD 57.19 million in 2018.
The bank has also achieved good growth in most financial indicators; gross assets increased by 9.7% to USD 1.33 million by the end of 2019, and the balances and deposits of clients increased by 7.48% to USD1.03 million. In the meantime, the gross balance of direct credit facilities portfolio increased by 14% compared to the past year and reached USD 796 million in 2019 compared to USD698 million in 2018.
The financial results achieved during 2019 positively affected the capital, with capital adequacy ratio increasing from 13% by the end of 2018 to 13.98% by the end of 2019. Given these results, the bank achieved after-tax- profits of USD 11.23 million. This shows the strength of the financial position of the Bank and its ability to withstand variables and challenges and to maintain its leading role in the banking sector as well.

Distinguished Shareholders,

The year 2019 saw the opening of Quds Bank representative office in Amman, the capital of Jordan, as the first Palestinian bank in the country with the goal of representing the Bank in Jordan and building relationships with institutions and individuals. This step aims at expanding the Bank's relationship base, strengthening cooperation and liaison with financial entities and individuals in Jordan. With this new office, the Bank now has 39 branches and offices.

The year 2019 witnessed the inauguration of Nablus and Salfit branches as well as Al-Rayhan Office with the new decorative model of Quds Bank with the bank's strategy to reach out to all clients and better meet their needs.

Believing in its responsibility towards the local community, the bank launched more initiatives in support of the national and societal activities. It provided support and donations during the year to a number of health, educational, cultural, humanitarian, sport and art centers and organizations. In addition, the Bank sponsored a number of conferences and symposiums targeting development of civil society organizations.

Distinguished Shareholders,

At the onset of the year of 2020, we take pride in being one of the largest banks in Palestine with branches and offices in all the regions of the country with a large clientele base.

Your institution continues its march into this year with solid budget, high-quality assets, assuring levels of liquidity, and strong financial indicators.

Continuing to promote the culture of commitment and governance, focusing on up-to-date technology initiatives, development of the identity of the bank, enhancement and revival of our network of branches, completion of the projects we started in 2019 and enhancement of our relationships with our clients are going to be among our top priorities.

These aim at maintaining our leading role in the banking sector in all of our work while continuing to develop and strengthen our relationship with the local economies through financing individuals, corporations and foreign trade.

Today, we are implementing the strategic plan of the bank in a systematic and scientific manner to confront the rapidly-changing situation and address opportunities and unpredicted threats, especially in the aftermath of the changes witnessed in the world economy and the modern trends of the banking industry.

The future plan of the Bank also provides for implementation of effective risk-management strategies at the national and international levels and attraction of talent and competences to develop performance and service delivery channels. These strategies are also aimed at reinforcing and enhancing the financial position of the bank with a view to achieve the highest level efficiency in operational performance.

Last, but not least, I'm pleased to seize this opportunity to express my heart-felt thanks and gratitude to the Palestinian Monetary Authority (PMA) for its support and effective cooperation with the Palestinian banking sector.

I would like to also thank the members of the board, the executive management and the staff of the bank for their sincere efforts to upgrade the performance of the bank and provide the best service for its customers.

I would also like to reiterate the board's full dedication to serving the interest of the shareholders, depositors, and customers of the bank, hoping to continue to provide them with good services and live up to their expectations. I affirm that the bank shall continue to fulfill its community responsibility and support the different meaningful qualitative activities and initiatives.

Board of Directors

Akram Abdullatif Jerab

Chairman of the Board of Directors

- Master 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
- Chairman of the Board of Directors and Owner, Cometa Scientific, Britain
- Founder and Chairman of the Board of Directors, Al-Karmel Company, Jordan.

Duraid Akram Jerab

Vice-Chairman of the Board

- Master 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
- Member of the Board of Directors of Jordan Investment Bank.
- 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.
- PHD 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 of Masrouji Group.
- Board member and CEO, United Securities Company.
- Board member of the Popular Art Center.
- Board member of Tibaq Publishing House.
- Member of a number of leading Palestinian associations.
- (Inash Al-Usra Association , Applied Research Institute (Arij), Friends of Birzeit University, Miftah, Palestine Institute of Governance).

Ahed Fayeq Bseiso

Member of the Board

- Bachelor's Degree in Architecture, Cairo University
- Board member of Amar Company.
- Board member of the Palestinian Association of Banks.
- Treasurer of the Palestinian Greek Economic Cooperation Council.
- Member of the Board of Trustees, Quds Open University.
- Member of the Board of Trustees, Palestine Investment Fund Representative, Spanish Olive Palm Organization, Palestine.
- AMIDEAST Advisory Board member.

Waleed Najeeb Al Ahmad

Member of the Board

- Bachelor's Degree in Electrical Engineering.
- Prominent businessman with in-depth experience in the construction field.
- Vice chairman of Board of Directors of Quds Real Estate Company, Palestine.
- Board member, Arab Hotels Company, Palestine.
- Board member, Quds Fund and Endowment.

Muntasser Izzat Abu Dawwas

Member of the Board

- Bachelor's Degree in Accounting and Financial Management, Buckingham University
- General Manager, Investment Bank, 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.
- Board member, Al Jazeera Bank, Sudan
- Board member, Integrated Building Information Bank.
- Former president, Islamic States Contractors Union.
- Former chairman, Arab Assurers Insurance Company.
- Former board member, Jordanian Contractors Union.
- Founder and member of the faculty staff, College 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 Firm, 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 Al 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 ophthalmology,
Attended the British Royal Eye Surgery College
- Fellow of the Royal College 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.
- Professor of ophthalmology and neurophysiology at 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 (Representative of JKB).
- Chairman of the Board of Directors, United Financial Investments Company.
- Member of the Board of Trustees, Jordan Museum.
- Board Member, Queen Rania Foundation.
- Board member of Al-Diaa Charitable Society for Education of Visually Impaired Children

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.
- 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).
- Board member of Jordan Petroleum Refinery Company (2019).

Balanced and Equitable Financial System

Chief Executive Officer's Statement

Distinguished Shareholders

It is my pleasure to present you with the annual report of the Quds Bank which covers the most important achievements of the bank in 2019.

The bank continued to achieve strong performance amidst continuing challenges that still hit the region. In spite of the operating environmental challenges this year, Quds Bank reported profits of USD 23.11 million after tax as compared to USD 6.11 million in 2018.

This performance confirms the solid financial position of the bank and its ability to respond to changing conditions, maintain its leading role in the Palestinian banking sector and contribution to the national economy.

Strong evidence of the solid performance of the bank and its competitive position is its banking market share which reached 67.7% with assets indicator of 7.7% of the customers' deposits and 9% of direct credits.

As per qualitative achievements and fulfillment of the customers' needs of the different segments, it developed in 2019 several banking products and services, especially in the electronic services domain.

In 2019, the administration of the bank laid in its strategic plan clear operating values to develop customers service-based financial technology. It focused on promoting technical transformation in the bank to enhance its infrastructure, engineering, security data and financial technology operating platforms.

The Quds Bank shall continue the information technology transformation process with further emphasis on the long-term strategic initiatives and improvement of direct interactive clients' channels to reach multidimensional solid experience, so that it can operate in line with highly advanced financial technology.

In the area of expansion and external presence, the year 2019 witnessed an exclusive achievement for Al-Quds Bank, with the opening of a representative office in the Jordanian Capital of Amman. It was the first bank in Palestine to achieve that towards more qualitative achievements that enrich its banking operations.
In accordance with its strategic plan, Quds Bank has reopened its branches in Salfit and Nablus governorates as well as its office in Al Rehan with new modeling that replenishes them with a new outlook at excellent sites which all clients can have access to and better meet their needs. This will be apples to all the branches of the bank in the foreseeable future to materialize all aspects of creativity and modernity.

Ladies and Gentlemen,

Quds Bank strongly believes in effective partnership with the local community, and therefore, it adopts a national goal that we are proud of and always work to achieve. It is providing service for our dear society and fulfilling national institutions' requirements. Encouraged by our solid faith in the role of the economic institutions in developing our local communities and out of our social responsibility, we shall continue to endeavor towards achieving this goal. The bank turned its slogans into actions and carried out (67) activities in 2019. It conferred special attention to the sectors of education, development, relief, health, women, children, sport and culture. It also provided support for several social and humanitarian activities.
We enter the New Year (2020) with a host of regional and global accelerating economic and political events. However, we look forward with hope and optimism to enable our country to overcome the challenges and risks. We seek to raise the national economic growth rates, enhance investments and make the banking sector further resilient. As such, our bank's performance levels and activities would be positively affected and its role in responding to the financing needs of the different productive economic sectors would increase. Likewise, the bank's sustainable growth shall continue and promote its leading role in the Palestinian market. It shall also enhance its role in the different business fields and consolidate its remarkable position at the local and external levels.

Distinguished Shareholders

I'm glad to seize this opportunity to extend my thanks and appreciation to the Palestinian Monetary Authority for its good management and continuing measures to promote the national economic growth and enhance the Palestinian banking sector resilience.
I would like also to thank the clients and shareholders of Quds Bank. We promise them to continually work harder to keep the bank in the lead. I thank the Chairman and the Members of the Board of Directors for their constructive directives in setting the strategy and goals of the bank. I thank all my colleagues and the staff of the bank for their unwavering endeavors and dedication to attain these achievements.
I wish bright future for our institution to further contribute to the development of our national economy and support the development and advancement of our dear country.

Executive Management

Executive Staff

Salah Hidmi

Chief Executive Officer (CEO)

• Bachelor's Degree in Financial and
• Banking Sciences, Amman National University
• Joined Quds Bank on September 7, 2016

Zaid Al-Jallad

Deputy CEO

• Bachelor's Degree in Financial and
• Banking Sciences, Amman National University
• Joined Quds Bank on July 15, 2012

Monther Odeh

Senior Vice President

• Credit Quality Division Manager
• Master's Degree in Accounting, Jordan University
• Joined Quds Bank on January 27, 2013

Muhammad Salman

Senior Vice President

• Finance and Administrative Division Manager
• Master's Degree in Accounting, Jordan University
• Joined Quds Bank on September 8, 2013

Albeir Habash
Vice President

- Credit Manager
- Bachelor's Degree in Business Administration, Birzeit University
- Joined Quds Bank on August 2, 2009

Muhammad Shawar
Vice President

- Financial Institutions and Companies Banking Services Manager
- Joined Quds Bank on February 1, 2017

Aysar Al Nubani
Vice President

- Businesses and Engineering Services Manager
- Bachelor's Degree in Electronic Engineering, Damascus University
- Joined Quds Bank on June 27, 2010

Alaa Titi
Vice President

• Information Technology Service Manager
• Bachelor's Degree in Computer Systems Engineering, Quds University
• Joined Quds Bank on March 14, 2010

Nader Salhi
Vice President

• External Operations Manager
• Master's Degree in Economics, University of Cannes, France
• Joined Quds Bank on May 25, 2014

Mahmoud Odeh
Vice President

• Central Operations Manager
• Bachelor's Degree in Business Administration, Bethlehem University
• Joined Quds Bank on November 4, 2018

Faraj Ghnaim

Vice President

- Human Resources Manager
- Bachelor's Degree in Economics and Political Science, American University of Cairo
- Joined Quds Bank on January 6, 2019

Fadi Al Kiswani

Vice President

- Internal Audit Manager
- Bachelor's Degree in Business Management Mutah University,
- Joined Quds Bank on March 2, 2014

Samih Abdullah

Vice President

- Individuals Banking Services Manager
- Bachelor's Degree in Administrative and Economic Sciences Quds Open University
- Joined Quds Bank on January 19, 2020

Zaid Jirab, FRM, CFA

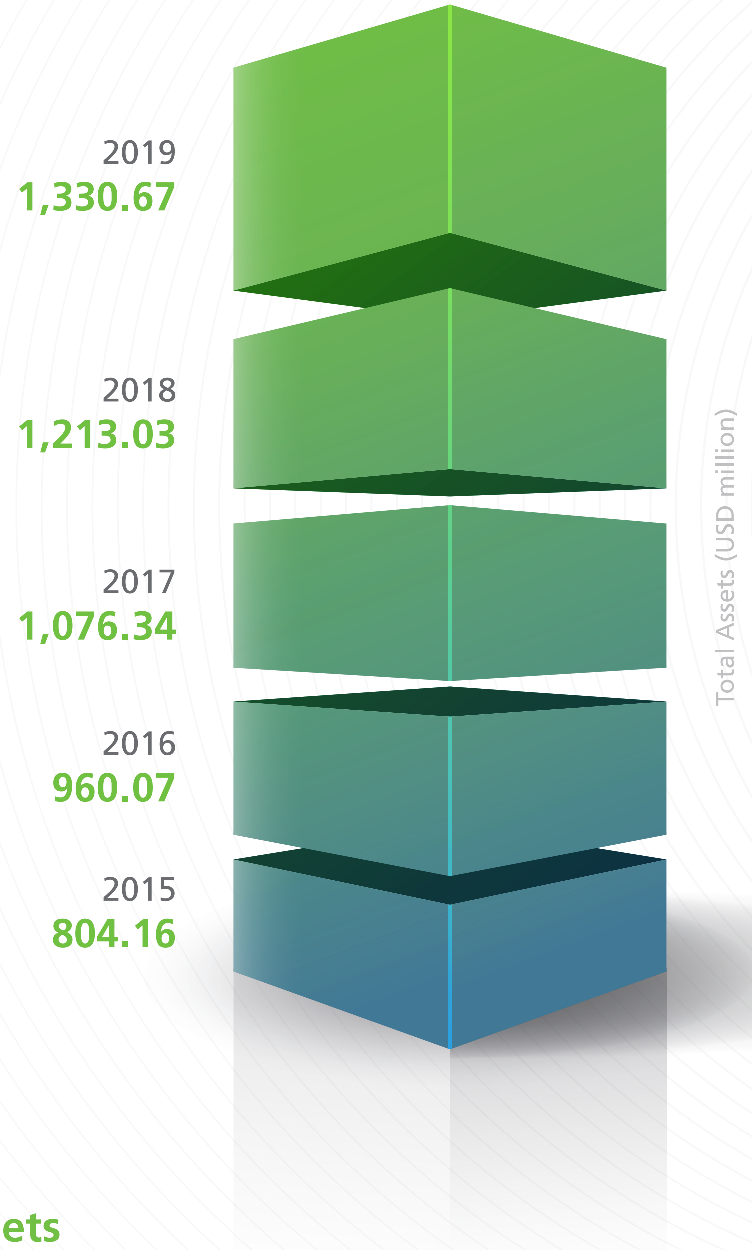
Vice President

• Strategic Planning and Digitization Manager
• Bachelor's Degree in Commerce McGill University
• Joined Quds Bank on October 11, 2015.

Key Performance Indicators

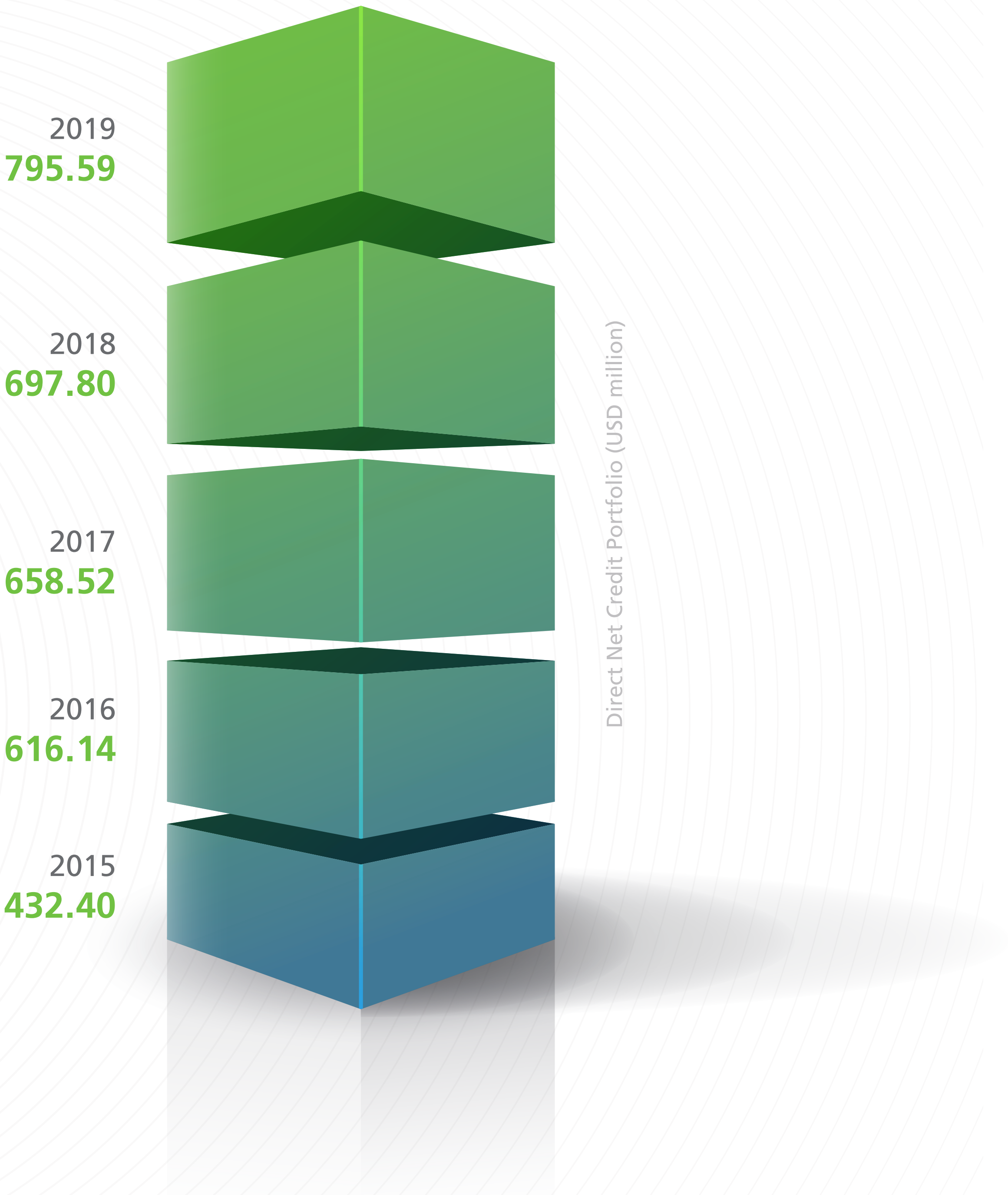
The Board of Directors of Quds Bank takes pride in the promising achievements of the bank in the year 2019. These achievements which were materialized thanks to the bank’s strategic development plans confirm its position in the banking sector as one of the most important and largest leading banks in Palestine.

Key Financial Indicators



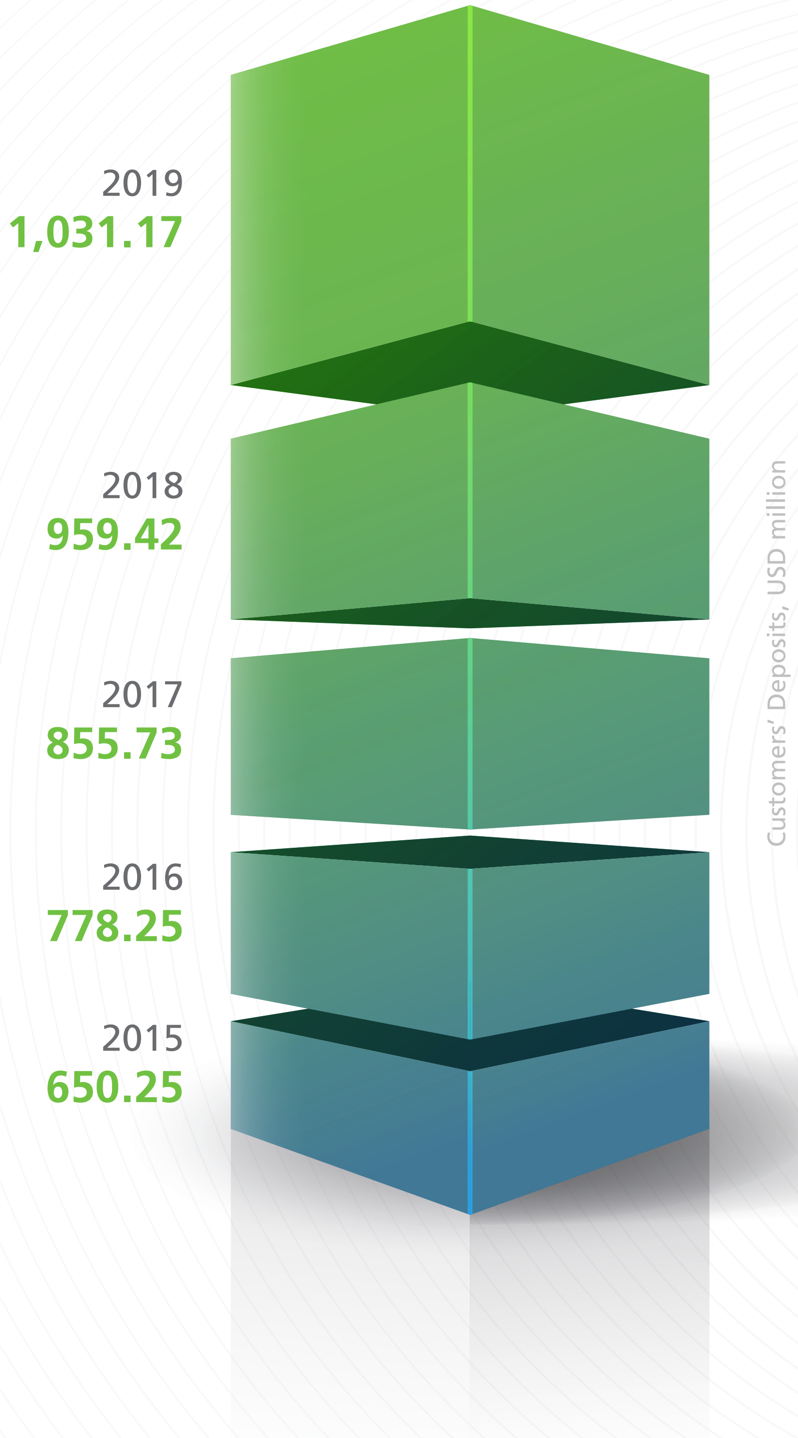
Total Assets

Total assets amounted to USD1.330 billion as at December 31, 2019, as compared to USD 1.213 billion as of December 31, 2018, with a growth rate of 9.7% to USD 117.65 million. The compound growth rate (CAGR) for the period 2015-2019 stood at 10.60%.



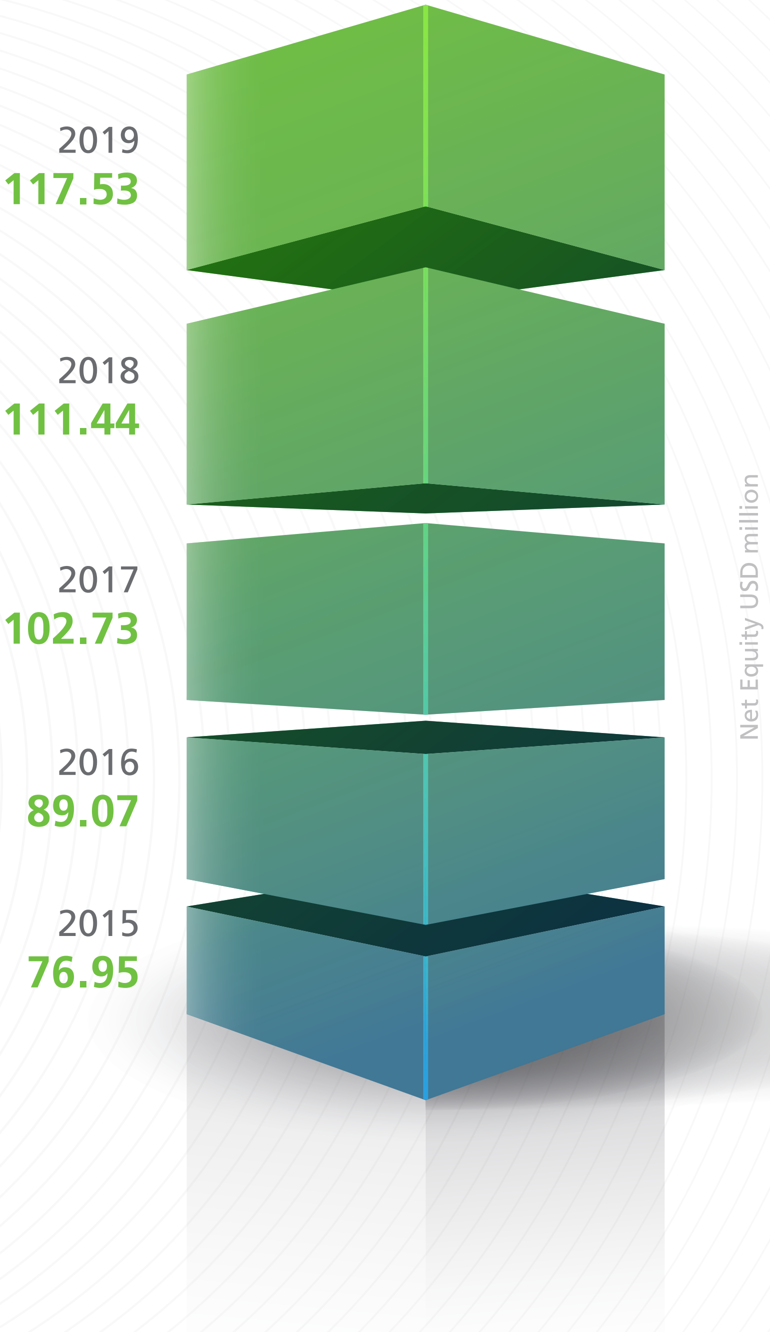
Direct Net Credit Portfolio

Net direct credit portfolio amounted to USD 795.59 million as at December 31, 2019 as compared to USD 697.8 million as of December 31, 2018, with a growth rate of USD 97.79 million, 14.01%. (CAGR) for the period 2015-2019 stood at 12.97%.



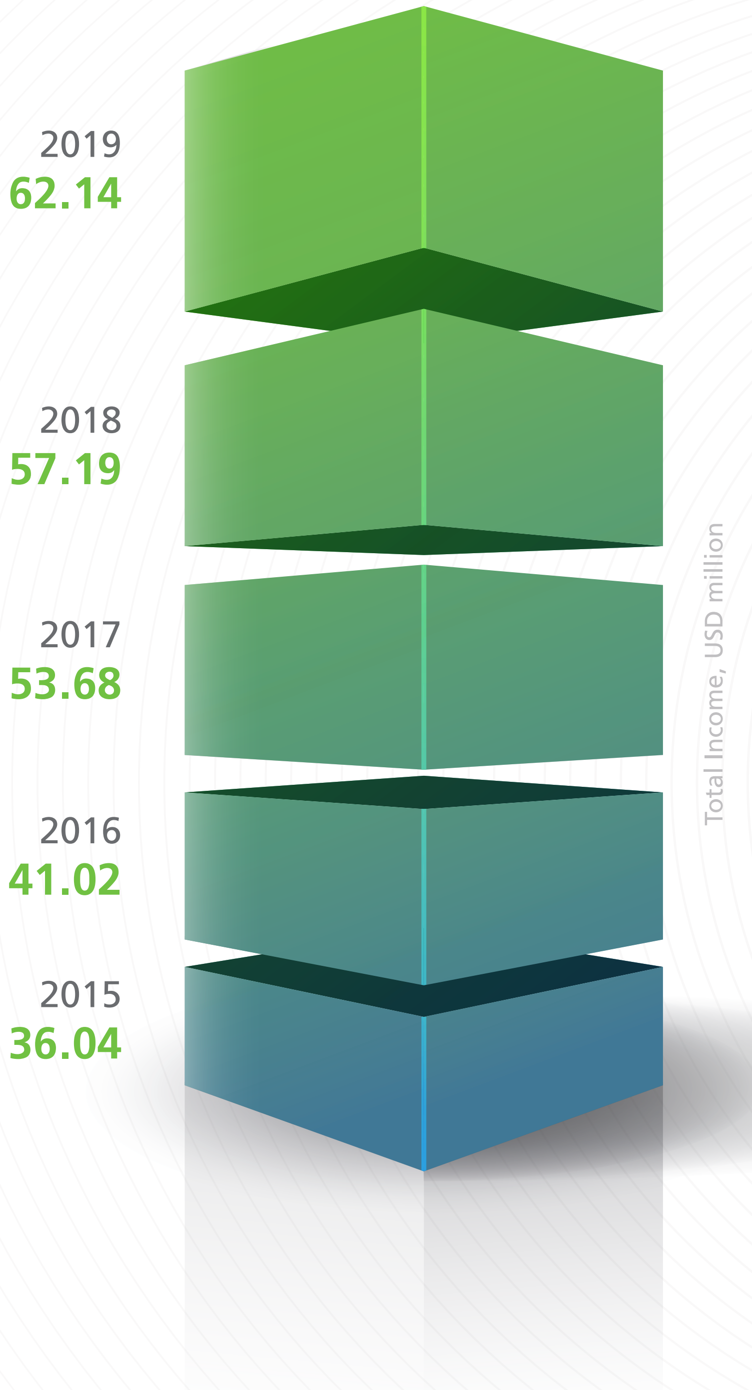
Customers' Deposits and Cash Insurances

Total deposits amounted to USD 1.031 billion as at December 31, 2019 as compared to USD 959.42 million as at December 31, 2018, with a growth rate of USD 71.75 million, 7.48%. (CAGR) for the period 2015-2019 stood at 9.66%.



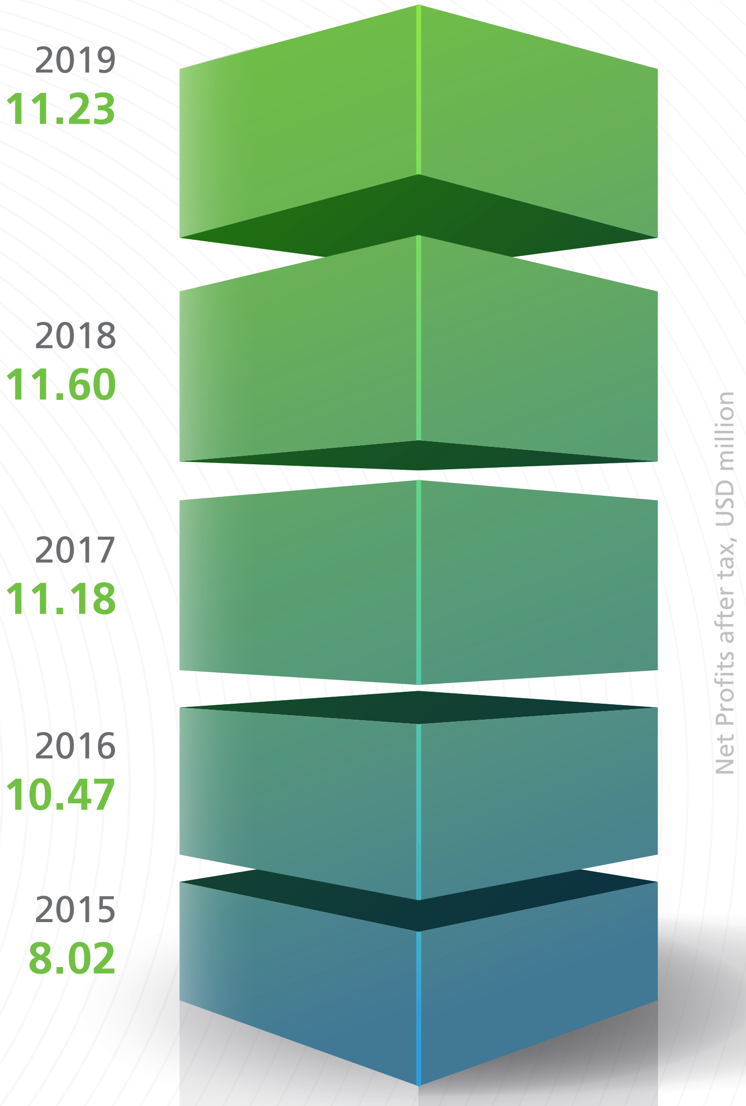
Net Equity

Net equity amounted to USD 117.53 million as at December 31, 2019 as compared to USD 111.44 million as of December 31, 2019, with a growth rate of USD 6.08 million, 5.46%. CAGR for the period 2015-2019 stood at 8.84%.



Net Income

Net total income amounted to USD 62.14 million as at December 31, 2019 as compared to USD 57.19 million as at December 31, 2018, with a growth rate of USD 4.95 million, 8.66%. CAGR for the period 2015-2019 stood at 11.51%.



Net Profits after Tax

Quds Bank reported profit of USD 11.23 million after tax as at December 31, 2019 as compared to USD 11.60 million as at December 31, 2018, with a decline rate of USD 37 million, 3.18%. CAGR for the period 2015-2019 stood at 6.96%.

Palestinian Banking Sector

The Palestinian economy has achieved growth during the first quarter of 2019, but this economic recovery didn't last long. International aid has been in decline and the tax clearance crisis aggravated. These conditions led to economic slow-down during the year 2019. Despite that, the indicators of the Palestinian banking sector show that the sector achieved good growth rates in 2019 as compared to 2018. Quds Bank achieved good growth rates in customers' deposits and direct credit facilitation.

The financial data of the Palestinian banking system indicate that the growth rates of the total assets of the banking sector increased from 10.95% as compared to 0.99% by the end of the year 2018, to reach USD 17.133 million. The total assets at Quds Bank grew during the same period by 9.73% to reach USD 1.331million.

Customers' deposits grew in the Palestinian banking sector by the end of the year 2019 by 9.5% as compared to 2% by the end of 2018, to reach USD 13.385 million while the deposits growth rate at Quds Bank amounted to 7.5% to exceed USD 1.031 billion ($1 million).

The share of the direct credit portfolio rose by the end of 2019 to 6.6% as compared to 3.7% by the end of 2018 to reach USD 8.763 million. Quds Bank's credit portfolio grew by 14.04% as compared with 5.9% during the year 2018 to reach USD 796 million.

Quds Bank's credit share rose in the Palestinian banking market to 9.08% in 2019 while its market share of customers' deposits amounted to 7.7%. By the end of 2019, there were 14 licensed banks in Palestine, including 7 local banks, distributed as (3) Islamic, (7) foreign banks. These banks are operating throw a network of 370 banking branches and offices compared to 351 ones in 2018.

The most important financial indicators

of Quds Bank in comparison with the rest of the banking sector in Palestine

Total assets (to the nearest USD million)

Statement	2015	2016	2017	2018	2019
Banking sector	12,153	13,698	15,292	15,442	17,133
Al-Quds Bank	804	960	1,076	1,213	1,331

Net direct credit facilities (to the nearest USD million)

Statement	2015	2016	2017	2018	2019
Banking sector	5,825	6,772	7,922	8,208	8,763
Al-Quds Bank	432	616	659	698	796

Total deposits (to the nearest USD million)

Statement	2015	2016	2017	2018	2019
Banking sector	9,655	10,596	11,982	12,227	13,385
Al-Quds Bank	650	778	856	959	1,031

Growth rates in the total assets compared to the banking sector

Statement	2015	2016	2017	2018	2019
Banking sector	2.86%	12.71%	11.63%	0.99%	10.95%
Al-Quds Bank	20.20%	19.39%	12.04%	12.77%	9.73%

Growth rates in the facilities compared to the banking sector

Statement	2015	2016	2017	2018	2019
Banking sector	18.97%	16.27%	16.98%	3.61%	6.77%
Al-Quds Bank	28.69%	42.46%	6.98%	5.92%	14.03%

Growth rates in the deposits compared to the banking sector

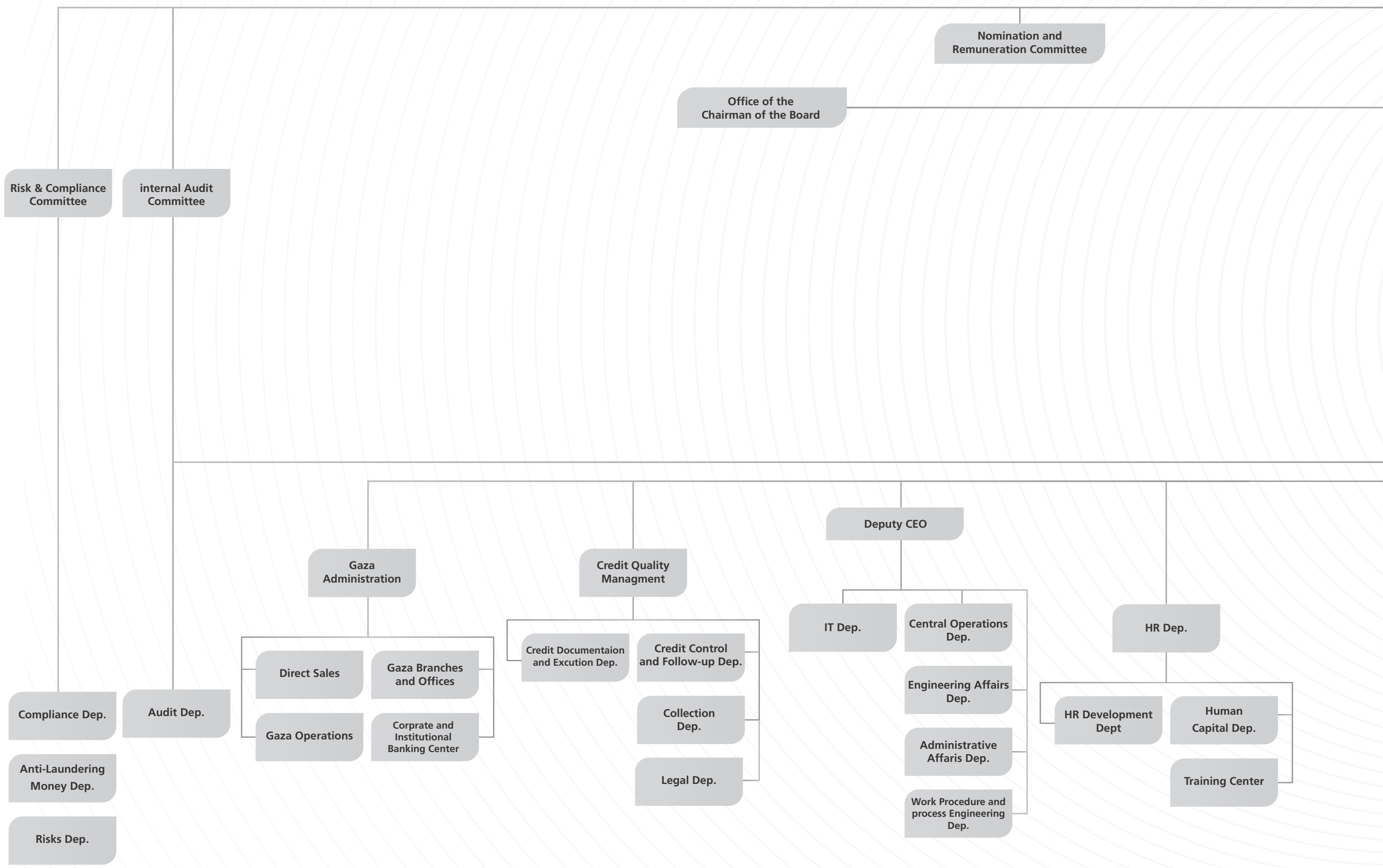
Statement	2015	2016	2017	2018	2019
Banking sector	8.05%	9.75%	13.08%	2.04%	9.47%
Al-Quds Bank	25.77%	19.65%	10.03%	12.03%	7.53%

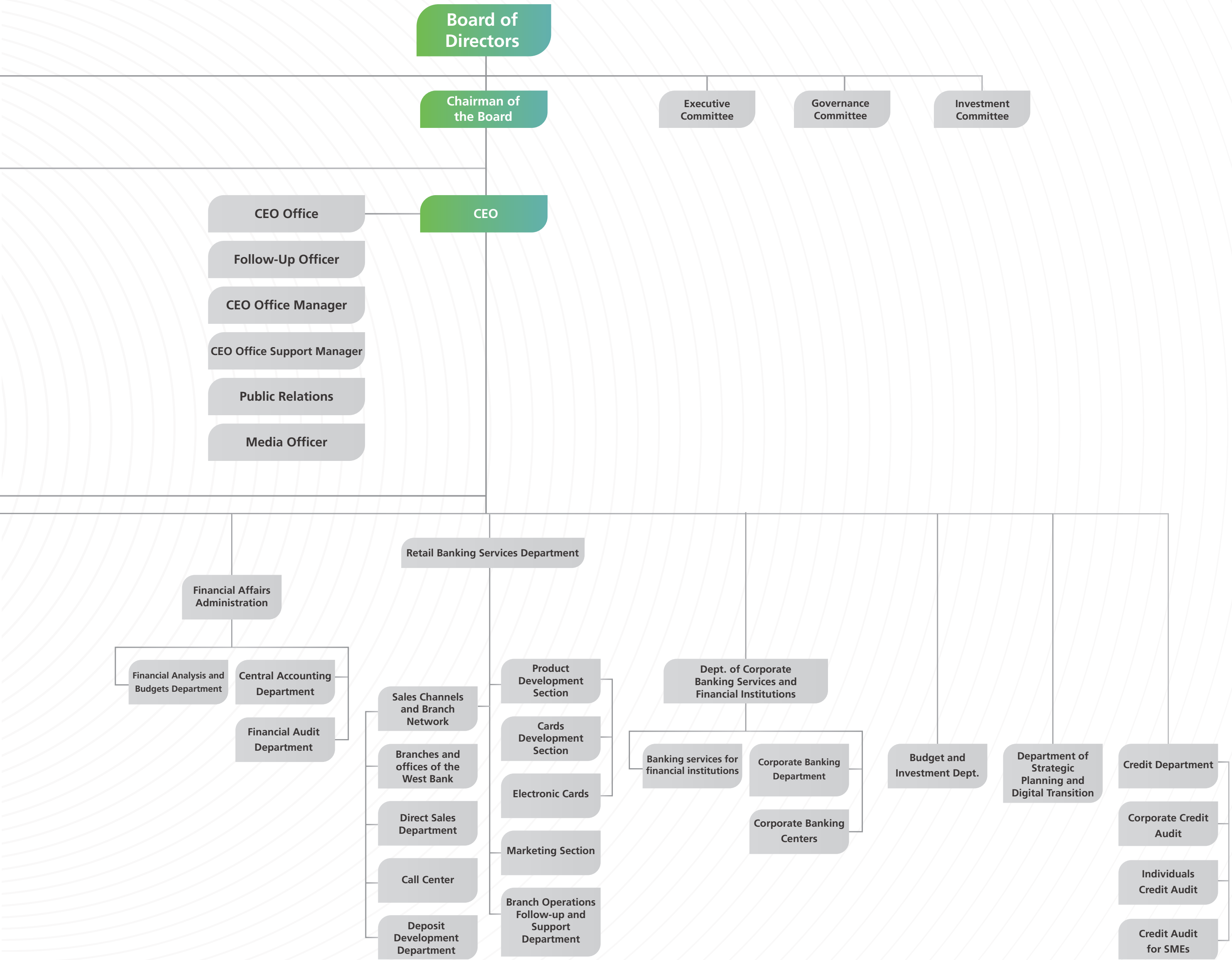
Market share Deposits and facilities

Statement	2015	2016	2017	2018	2019
Banking sector	6.74%	7.34%	7.14%	7.84%	7.70%
Al-Quds Bank	7.42%	9.10%	8.32%	8.32%	9.08%

Organizational Structure

of the year 2019




Board of Directors
Chairman of the Board
Executive Committee
Governance Committee
Investment Committee
CEO Office
CEO
Follow-Up Officer
CEO Office Manager
CEO Office Support Manager
Public Relations
Media Officer
Retail Banking Services Department
Financial Affairs Administration
Financial Analysis and Budgets Department
Central Accounting Department
Financial Audit Department
Sales Channels and Branch Network
Branches and offices of the West Bank
Direct Sales Department
Call Center
Deposit Development Department
Product Development Section
Cards Development Section
Electronic Cards
Marketing Section
Branch Operations Follow-up and Support Department
Dept. of Corporate Banking Services and Financial Institutions
Banking services for financial institutions
Corporate Banking Department
Corporate Banking Centers
Budget and Investment Dept.
Department of Strategic Planning and Digital Transition
Credit Department
Corporate Credit Audit
Individuals Credit Audit
Credit Audit for SMEs

Future Plans and Strategy

Quds Bank Strategic Plan

Quds Bank has laid a blueprint strategic plan for the period 2020-2022, based on a systemic scientific approach to confront the rapidly changing situation and address unpredicted opportunities and threats, particularly after the changes global economy witnessed and the new attitudes of banking industry.
The bank seeks to make this strategic plan as a guideline for all its resources and activities and to encompass all innovative ideas and trends within an integral frame of the banking services and activities in accordance with its available resources and potentials.

The bank adopted effective strategies to develop its services to the level where it can address the different challenges based on the following major themes:

• Developing human capital:

The success of the bank depends on the effort of its staff and its development, and therefore, it seeks to design, through its strategic plan, a number of development programs and projects. The aim of these programs is to improve the performance of the staff of Quds Bank and improve their feel and attitude towards others. They also aim to enhance their team-work spirit and sincerity to feel that they contribute to an excellent institution.
The bank also seeks to build the culture of performance appraisal and excellence in the banking sector, better function and facilitate effective communication among the employees, departments and branches. It also seeks to measure job satisfaction and award excellent staffers.
The bank conducts necessary training courses for its staff, based on needs assessment. These training courses increase staff's sincerity to the institution and contribute to changing their culture. They also increase their competence and result in good impact on the quality of the bank's customers' services.

• Bank's products and services development

The development of the banking services and products constitutes one of the main components of any bank. It is the lung of the bank through which it can achieve excellence and competitiveness in the Palestinian banking sector, especially the products and services of this sector are almost alike.
Quds Bank laid its strategic plan, based on a new operating mechanism that takes into consideration the needs of the customers. It attaches maximum attention to keep them satisfied with its excellent services and products as well as its specialized services which match customers' segments, geographical areas and keep pace with digitization advancement.

• Digitization and operations automation

Banking systems and platforms have a significant role in improving the bank's performance through cost-effective banking services. They enable the bank to spare time and effort, improve and organize operating competence and better oversight environment. This contributes to improving quality, streamlining service provision procedures, creating opportunity for innovative and creative services and non-traditional methods of services delivery.
Digitization helps bank's expansion and spread to reach a larger base of customers. Quds Bank seeks through its strategic plan to develop the skills of the staff of the department of information technology and investment in several programs and systems. It aims to automate all banking transactions and engineer the structure of the IT to create an environment that is easy to handle and build on. It puts within its view several other projects to develop this aspect of its activities.

• Competence and improving service quality

Competition among banks on the basis of services delivery, service price or innovation has become uneasy for the administrations of the banks that seek to increase their market share and achieve higher gains. Thus, Quds Bank has attached special attention to the quality of banking service as a strategy for completion to outperform other competitors and so achieve its marketing goals.

The aim of the strategic plan of Quds Bank is to continually monitor customers' satisfaction by observing their perceptions and awareness of the quality of its services, identifying weaknesses in the quality of delivering the suitable services, taking corrective measures necessary for improving service quality.

• Oversight Environment

Quds Bank attached attention to oversight environment to maintain the assets, develop its operating competence and encourage compliance with the effective management policies.

Increasing technical development and use of technology in the banking industry contributed to increasing the diversifying banking services provided. It also further complicated banks' transactions in the highly competitive and risky market. To address this factor and its relevant risks, it has been necessary to monitor the level of these risks and set necessary oversight procedures to control the resultant adverse impacts and manage them without causing loss in returns or failure of achieving the strategic goals of the bank.

Quds Bank seeks through its strategic plan to improve the oversight environment and promote staff's awareness about the concept of continual and integral oversight and audit at the bank for risk management.
Keeping mindful of self-evaluation and execution of necessary oversight measures contributes to reducing the impact of risks. This could be carried out through internal audit system and follow-up mechanisms that go in alignment with the internal set-up of the bank and ensure staff's appropriate implementation of all these measures.

• Fiscal Policy and Financial Trajectory

Quds Bank seeks to diversify its investments, so that it can have diversified investment portfolio. It views to minimize concentration on granting credit facilitations, including investments by banks and companies, stocks and bonds as well as other significant investment activities.

The strategic plan of the bank includes several programs and activities aimed at optimally managing liquidity and identifying the annual fiscal goals according to scientific accurate studies of the situation of the competitors, market share and potentials and tools necessary for their implementation.

It also has other strategic plans and programs that cover the different activities of the bank. The bank seeks through all these programs and plans to improve its profits, given declining profit margins the Palestinian banking sector experiences today. It also seeks to reduce the cost on the long run, achieves customers' satisfaction about its services and products, decreases their complaints, promotes its relationship with them and meets their needs. It aims to increase their sincerity in a manner that would positively affect its financial outcomes and competitive position.

Innovative Banking
Products and Services

Innovative Banking Products and Services

In compliance with the strategic attitudes of the bank, the Products Development Department developed a number of modern services and products which respond to the aspirations of the bank's customers and clients. The aim of that is to upgrade the level of the bank's services and meet the needs of the banking market. It also aims to promote services and products digitization to contribute to increasing the rates of financial inclusiveness.

As per individuals segment, the Products Development Department developed a set of credit products and services, including:

- Pensioner loans program.
- Civil and military pensioner loans program.
- Private sector and universities individuals' loans program.
- Cars' loans product (Quds Auto).
- Cash to cash: personal loans against cash collateral covering 100% of the value of the requested loan in the cash collateral account.
- Real estate liquidation which aims to liquidate the value of the real estate of the customer who wishes to get a loan against real estate collateral.
- A number of private sector companies are accredited to transfer salaries to promote lending opportunities.

Quds Bank MasterCard™: Credit Card

MasterCards were designed in different types with the logo of "Your Partner"

Quds Bank's MasterCards include:

ATM Card and other credit cards (Silver MasterCard, Titanium MasterCard, World MasterCard, and World Elite MasterCard) were designed to ensure luxurious experience to customers, flexibility in paying off their purchases and free cash withdrawal inside or outside their country. MasterCard meets all the needs of the bank's customers.

The bank's strategy aims to provide state-of-the- art services for its customers, and so it activated the immediate issuance system of ATM Mastercard in its branches and offices during the second quarter of the current year to improve the service quality and make it faster.
Quds Bank MasterCards are characterized with their Logo (Your Partner), luxury, well-fare and other exclusive features that promote a lifestyle matching the bank's customers' aspirations.
For building fruitful partnerships, Quds Bank provides through these MasterCards priceless services for its customers.
The bank's collaboration with MasterCard International Inc is a significant step that allows it a large package of payment solutions that suit its customers.
In the second quarter of the current year, the bank launched a promotional campaign ""An out of the world experience for you and your life partner"". This campaign which was launched in cooperation with MasterCard International Inc gives the winner the opportunity for a luxurious journey. It targeted the bank's customers who hold World MasterCard and World Elite MasterCard. It provided, within Priceless

Program, a fully-paid journey for two persons to, either, Bali, Bangkok or Beijing. What makes this campaign different from others is the package it provides for its winners. It provides a luxurious journey with warm welcome at the airport and a schedule full of unique tourism experiences and activities. The winner shall also be given pre-paid card from MasterCard International Inc to promote his\her marketing expertise.
World MasterCrad and World MasterCard Elite are classified by MasterCard International Inc as Premium which provides VIP treatment and other exclusive advantages that promote customers lifestyle and enables them to enjoy best services. This wasn't restricted only to the new promotional campaigns and products of the credit cards. "MasterCard For You" application was activated and the bank was listed under the name of "Other MEA Markets". This enables MasterCard holders to keep updated on the offers and benefits made available for customers and how they can benefit from them.

This application provides easy access to the offers provided by MasterCard-holding stores according to the type of the MasterCard they hold. Such MasterCards make the customers' next trip more interesting and make their everyday life easier.
Within the context of developing digital banking and financial services provided for the bank's customers, the bank set a strategy to continue to develop MasterCards and produce new additional products with advanced technology to meet the needs of the different categories of the society and realize the goals of the national strategy of financial inclusiveness in Palestine.

Prime Program

Quds Bank has dedicated its efforts through this department to increase its deposits of businesses and individuals. It seeks to achieve that by providing inclusive banking services for a large segment of customers' accounts. Despite the challenges and intense competition the Palestinian banking sector has, the bank adopted advanced systems of providing financial services and banking products for businesses and individuals. This enables the bank to promote the competence and quality of its banking products and services. To this end, the bank designed Business Prime and Individuals Prime.

Prime

Quds Bank has maintained its distinction and allocated Individuals Prime program to specific customers to satisfy their needs and live up to their expectations according to their banking requirments. This program allows customers to enjoy remarkable benefits in record time and infinite accuracy. It presents them with means of ease and luxury.

Business Prime

Business Prime was designed by Quds Bank to provide its prime customers with excellent banking experience, added value and unique service translated into Business Prime account. Through this service, customers can manage their accounts effectively and easily to their satisfaction.

Electronic Services

The department seeks to promote the use of technology to provide and facilitate banking services for the bank's customers and upgrade the level of the services provided for customers and increase the rate of subscribers. It also seeks to encourage the customers to use electronic services instead of paper and traditional forms.

Electronic Services designed the following systems:

- Mobile banking application (Quds Smart).
- Online banking application (Qudsi Online).
- SMS.
- ATMS and related problems.

Electronic Services' Acheivements 2019:

- Applying the immediate debit card issuance system in all the bank's branches and officies.
- Applying check depositing through ATMS service.
- Adding the service of withdrawing bank notes in small denominations of NIS at several ATMs.
- Redesigning and modernizing all ATMS' screens.
- Applying the up-to-date version of the online banking application (Qudsi Online).
- Providing the bank's customers with a guidline of digital services.
- Applying updates to banking applications.
- Increasing online cash transfer limit.

Wire Transfer \ Western Union

Given the importance of developing a set of distinctive services and products provided by the bank, it expanded during the year 2019 the network of its sub-agents for fast transfer service. It is the biggest major agent of Western Union transfers in Palestine. It has a network of 28 agents with 35 locations and 38 branches and offices in the West Bank and Gaza. The aim of this network is to meet peoples' needs of sending and receiving money. The bank sought to develop the mechanism of fast transfer service in accordance with the best international practices and standards. It observes all compliance requirements and protection systems and anti- money-laundering policies. It now works to get Palestine Money Aauthority's approval to implement the project of transfer through Western Union Digital Money Transfer.

Service Quality Unit

The bank seeks through the Service Quality Unit to develop the quality of the services provided for its customers to live up to their expectations, increase its competitveness capacity, contributes to realizing its objectives, satisfy its customers and employees. It aspires to be its customers and employees' first option and their address for excellence.

Service Quality Unit's Objectives

- Preparing and applying the excellent service strategy to further the bank's success.
- Changing the style of treatment with custormers and neutralizing the common mistakes in the

patterns of thinking and expression.
• Measuring customers' satisfaction by measuring the indicators of the service quality and bank's employees' performance who directly deal with the customers.
• Know-how to give the bank's customers good impression and good reputation about the bank and how handle and respond to their complaints.
• Enriching bank branches employees' knowledge about the types of customers and how to deal with them.

Service Quality Main Standards:
- Branch model and cleaniliness.
- Employee's appearance and etiquette.
- Service quality.

Marketing Campaigns

The Marketing Campaigns Department exerted extensive efforts during 2019 to make Quds Bank more visible and promote its tradebrand among the public. It renewed and modernized biometrics identification (Iris Scanning) in the bank's branches and offices.
The bank remodlled some of its branches and offices, so that it can meet its customers and clients' needs. Additionally, it participates in effective and thoroughly-netted activities, promotes its services and products and develops its work-strategy on social media strategies.
Quds Bank was distinctive in promoting the campaigns it launched during the elapsed year. It innovated medoren and new camapigns to reach out to the targeted segment and keep pace with the latest updates through online marketing and less dependency on traditional campaigning methods.

Campaigns:
• "An out of the world experience for you and your life partner"campaign was launched for promoting MasterCard™. It provided three "Priceless" trips to Bangkok, Bijeing and Bali. It also promoted "Cashback" offer amounting to 12%.
• Ramadan special package: "Double the joy $500 every two days" campaign and Christmas package "Double the smiles and double the joy every two days".
• "Noor"digital channels promotional campaign for supporting children in SOS Children's Villages. It also provided a monthly (NIS1000) award for one winner.
• Western Union Transfer Promotional Campaign was launched at festive occasions and feasts: "Let your joy be two with $500 every two days campaign" was launched during the holy month of Ramadan and "let your laughter be two every two days campaign" was organized during glorious festive holydays.

The Marketing Department promoted other services around the year, most important of which were depositing cash and checks through ATMs, staff attending at the offices based in the commercial centers on Sundays and at night. It also promoted digital services through mobile phone application (Quds Smart) and (Quds online) as well as the call center services and others. The Marketing Department exerted its utmost to carry our several acvtivites and events in a thorough and unprecedented manner in 2019. The first representative office for the bank was opened in Amman, the capital city of Jordan. It was an ideal office with clear resonance. In the same manner, the Salfit and Rafeedia branches as well as Al Rihan office were opned. It sponsored and carried out several activities in a way that came with amazing marketing outcomes. These activities and events included: students company competition festival; Palestine 16th Expo 2019, 4th industrial revolution exhibition and olive oil, pillar of the home festival.

Call Services Center

During 2019, the Call Center performance and technologies it uses in service of the bank's customers were significantly developed as a significant contact point with the customers. It broadened the network of its services to cover all the current and potential customers of the bank. It is a significant marketing point and a source of market's data. It performs a significant role in measuring customers' satisfaction and providing opportunities for developing the bank's services and products.
All incoming calls to bank's branches and offices in the West Bank and Gaza are answered through the call center to provided customers with best services at record time and ensure high quality sale services for all the customers of the bank through its branches.
The Call Center also answers to the bank's customers' messages at social media platforms and provides necessary support bank's branch agents of the Western Union service.
The Call Center carries out promotional and inquisitive activities and projects through its interaction with the bank's customers on social media platforms in accordance with clear policies and procedures that ensure banking information confidentiality and help develop the bank's services. All these activities are conducted to achieve the wishes and aspirations of the bank's customers and in accordance with its strategic plan.

Correspondent Banks

Financial Institutions Department seeks to enhance Quds Bank relations with the regional and international correspondent banks to ease banking services and products such as foreign trade, international payments and trans-national transfers for retail customers, companies and organizations.
It also participates in managing and easing inter-banks transactions to include foreign exchange, capital market activities and derivatives and make accounts, including operating and investment accounts.
This department closely works with the sections of the treasury and the financial and commercial banking activities to keep mindful of the international requirements of the customers, exchange the latest market standards and requirements and contribute to implementing international standards to comply with combating money laundering and terrorism financing.
Quds Bank's strategic plan is based on expanding the network of its correspindents at international level. It set new bases for its relations with several financial institutions in several countries, including Arab Gulf States, Europe, China and Turkey. It continues to develop to meet its customers' needs through an internationasl network of correspondents, with full compliance with all international relevant provisions.
The department forged during the elapsed year a number of agreements with international institutions, including IFC and EBRD.
It also joined international trade agreements with more than 800 financial institutions around the world. Such success enables the bank to provide trade services for its customers and promote relations with different financial institutions.

Treasury

Quds Bank Treasury Department performs a leading role in the management of the bank's assets whereby financial profitability and stability is realized. It contributes to raising the bank's fiscal competence and minimizes operating risks. It achieved tangible and stable outcomes for its operations, developed its performance and promoted its investment capacities. Such outcomes are necessary for the protection of the interests of the bank and provision of service for its customers in selling and buying different currencies to achieve trade and profitability objectives and neutralize the risks they might face within the framework of high professionalism.
The department seeks to keep its role as a lever for bank's profitability and stability and to continue to develop its performance and services by offering new products in consistence with the bank's aspirations and international developments.
The Treasury Department provides for the bank's customers services of exchange sale and purchase

at competitive price around the clock. It also provides product of forward deals through which sale and purchase of exchange can be conducted at forward date of maturity that could extend to one year from the date of the signature of the deal. This would enable the customer to protect the value of the assets, cash flow and hedging against the fluctuations of the exchange rates and to eliminate their impact on the budget.
The department makes maximum effort to continue to provide these services at competitive prices and high professionalism around the clock for the benefit of the bank's customers. It also makes its utmost to keep pace with up-to-date services to cater for the bank's customers.

Corporate Services

Corporate and Financial Institutions Banking Services Department:

Quds Bank provides through this department a spectrum of banking solutions for the corporates and institutions sector. The department exerts its maximum effort to provide support for start ups and successful companies to develop. It seeks build strong relationships with several companies and institutions to offer them services and cater to the customers' everyday needs.
Quds Bank attaches strategic priorities to the Corporate Services subordinate departments, including:

1. Corporate Banking Services Department:
Quds Bank seeks to enhance its relationships with its current customers and acquire new ones to provide for them banking facilitations and other banking services necessary for their businesses.
It provides services for large enterprises and SMES through its business centers located in the bank's offices and branches in all the Palestinian governorates.
These centers are located in Ramallah, Nablus, Tulkarem, Jenin, Salfit, Hebron, Beit Jalla and Gaza.
SMES constitute 95% of the registered operating estblishments in Palestine. They are the largest employer for the Palestinian workforce.
The department provides these services through specialized managers who have high competence and abilities to run the relations with these enterprises and cater to their needs through:
• Opening new accounts.
• Issuing cheque books.
• Issuing LGs for domestic and foreign entities.
• Managing internal and external banking transfers in all currencies.
• Internal and external trade transactions, including imports and exports.
• Purchase and sale of foreign exchange at different prices.
• Providing customers with banking credit facilitations that respond to their needs, including short-term credit (financing operating capital) or long-term credit (financing fixed assets) through the following products:
- Standard overdraft.
- Regressive overdraft
- Long-term loan (financing fixed assets).
- Short-term loans (financing purchases, sales or bank discounts).
- All typs of banking guarantees.
- At sight letter of credit or standby ketter of credit.

2. Corporate Banking Services Department:
This department is in charge of forging and running relations with financial institutions and correspondent banks. Quds Bank attaches special attention to this department for its role in making and running new relations to serve the bank's customers and meets their needs at the internal and external levels. The bank's relations with correspondent banks contribute to further service of its cusomers in terms of currency exchange, financing and receiving transfers.

Branching and Expansion Strategy

Branching and Expansion Strategy

In line with the strategic objectives of focusing on the investment in digital technology and introducing developments and improvements to its electronic channels, Al-Quds Bank has decided to reduce the opening of new branches and offices and rather focus on the Bank's electronic channels, i.e. automatic teller machines, the Mobile Banking Service, and the Internet Banking.

The year 2019 saw the relocation of some branches to more strategic locations with a view of providing our customers with an excellent service; The Salfit branch was moved to Medina Street, and the New Nablus branch was moved to Rafidia neighborhood, while the Birzeit Mall office was moved to Lacasa Mall in the Al-Rayhan Suburb. As a result, the number of branches and offices of the Bank reached 39 branches and offices across the West Bank and the Gaza Strip, in addition to 70 automatic teller machines.

To achieve its strategic objectives of regional expansion, and one year following its purchase of the portfolio of the branches of the Jordan Kuwait Bank in the Palestinian market, Al-Quds Bank opened its office in Jordan making it the first Palestinian office in the kingdom's banking sector. This has indeed embodied the Bank's ability to expand in Palestine and abroad, whereby the new office serves the clients of Jordan Kuwait Bank in the Palestinian market, and the local customers of Al-Quds Bank outside Palestine. In addition, the new office has attracted new customers from both markets.

General Administration	Al-Masyoun Neighborhood,Ramallah and Al-Bireh –Jerusalem Street, Al-Masyoun
Ramallah Branch	Downtown Ramallah, Ramallah and Al-Bireh, Main Street, Rukab Street. Hajj Yasin Building
Al-Bireh	Al-Bireh, Ramallah and Al-Bireh, Education Street – Burj Al-Bireh Building
Gaza Branch	Sabra Neighborhood, Gaza,Omar al-Mukhtar Street, opposite to the Municipality Park
Nablus Branch	Downtown Nablus, Nablus Main Market
Al-Ezariya Branch	Ras al-Kabsa, Ezariya, Jerusalem, Main Street, Kabsa Junction
Beit Jala Branch	Beit Jala, Bethlehem Al-Sahl Street
Salfit Branch	Salfit, Medina Street
Tubas Branch	Main Street, Tubas, Near Shifa Hospital
Attil Branch	Attil, Tulkarm, Al-Shamali Neighborhood, Main Street, Sha'rawiya Entrance
Hebron Branch	Main Street, Hebron, Ibn Rushd Roundabout
Al-Malsyoun Branch	Al-Masyoun Neighborhood, Ramallah and Al-Bireh, Al-Quds Street, Al-Masyoun
Nablus New Branch	Rafidia, Nablus, Sudah Building
Al-Bireh Branch	Al-Bireh, Ramallah and Al-Bireh, Tahuna Street
Rimal Branch	Rimal, Gaza, Omar al-Mukhtar Street
Tulkarm Branch	Downtown Tulkarm, Tulkarm, Al-Asir Street
Jericho Branch	En al-Sultan, Jericho, Al-Muntazahat Street
Jenin Branch	Downtown Jenin, Jenin, Abu-Bakr Street
Jenin - Haifa Street Branch	Haifa Street, Jenin, Haifa Building
Qalqilia Branch	Downtown Qalqilia, Qalqilia, Shaima Roundabout
Khan Younis Branch	Saqqa Street, Khan Younis, Al-Farra Building

Nusseirat Branch	Nusseirat, Deir el-Balah Salaheddin Street
Ras al-Jora Branch	Ras al-Jora, Hebron, Nazmi Salah Building
Bethlehem Branch	Bethlehem, Al-Mahd Al-Jadid Street
Jabalia Branch	Jabalia, Gaza. Jabalia Refugee Camp, opposite to the UN office
Rafah Branch	Rafah, Al-Najma Roundabout
Beit Lahia Office	Beit Lahia, Gaza, Main Street, Beit Lahia Square
Anabta Office	Tulkarm Main Street, Badran Building
Najah Office	Nablus, Najah National University Campus
Biddya Office	Biddya, Salfit, Main Street
Silat al-Dahr Office	Silat al-Dahr, Jenin, Main Street
Al-Quds Street Office	Al-Bireh, Ramallah and Al-Bireh, Al-Quds Street, Raj'in Street
Qabalan Office	Qabalan, Nablus, Main Street
Jamma'in Office	Jamma'in, Salfit, Main Street
Al-Zaytoun Office	Al-Zaytoun, Gaza, Salaheddin Street
Tarqumia Office	Tarqumia, Hebron, Main Street
Ad-Dhahiriya Office	Ad-Dhahiriya, Hebron, Mashrou' Quarter, near the Chamber of Commerce
Al-Rayhan Office	Al-Rayhan Suburb, Ramallah and Al-Bireh, Lacsa Mall
Plaza Mall Office	Al-Balou, Ramallah and Al-Bireh, Bravo Mall
Al-Tira Office	Al-Tira, Ramallah and Al-Bireh, Batn Al-Hawa Street
Representative Office	Amman, Jordan, Rabia, Yarmouk Plaza 2

Human Capital

Human Capital

The Human Capital Administration contributes to achieving the Bank's goals by offering support in the areas of human resources, and by creating an environment that helps the Bank's family make the best use of their capabilities. This was the reason behind the establishment of the Human Capital Administration, which was not just a change of title but an expression of conviction and a major transformation in responsibilities and tasks. In addition, the creation of the new administration aimed at enhancing the strategic cooperation with the senior management in shaping the role of the human factor in the Bank's growth and development.

The Human Capital Administration consists of three main departments:

- Human Resources Department
- Department of Human Resources Development
- Training Center

Al-Quds Bank believes that the human factor is an essential component of its resources, and that great attention and care must be given to this factor in order to preserve, develop and take care of its affairs. Therefore, the Bank takes pride in its highly experienced employees of both genders.

Distribution of employees between the General Administration and the branches and offices of the bank:

Number of employees	741
Employees of the General Administration	362
Unclassified employees of the General Administration	26
Employees of the branches	313
Unclassified employees of the branches	40

Distribution of employees by gender in the General Administration and the branches:

Males

General	Branches	Proportion
283	228	511
73%	65%	69%

Females

General	Branches	Proportion
105	125	230
27%	35%	31%

Total

General	Branches	Proportion
388	353	741

Distribution of employees according to academic qualification:

Masters	23
Bachelors	551
Diploma	78
High School and above	43
Total employees	741

Distribution of employees by age:

Age group	Employees
Less than 22 years	1
22 to 30 years	417
31 to 40 years	244
41 to 50 years	89
51 to 60 years	21

Total employees

741

Distribution of employees according to average age:

Average age of all employees	32
Average age in the branches of the bank	31
Average age in the General Administration	32
Average age of the directors of the General Administration	45
Average age of the directors of the branches and offices	41

Training Center

At the Training Center of Al-Quds Bank, we view training as an important investment in human capital and not as a financial burden. We do everything we can to help each employee achieve their career aspirations. Therefore, we are building, designing and executing training programs that meet the needs of our employees, while focusing on new employees in particular and involving them in international conferences and seminars in the area of banking. We also attract local and international experts and specialists in all areas of banking.
As one of the best practices in the banking sector, our work methodology involves various training programs and activities and as follows:

- Internship training
- In-house training
- External training
- Onboarding Program for the training of new employees
- Practical training programs for employees
- Specialized Arab and international professional certification programs
- Al-Quds Bank Educational Platform for training online

During the year 2019, a total of 128 training activities and programs of various kinds were implemented, and were divided into 4,597 training hours in which 1,743 trainees participated. The total cost of these activities amounted to $278,938 in addition to petty cash and transportation costs. The major focus of these activities was on the employees of levels 1 to 4, who received 42 percent of the total expenses of the activities and training programs, and who represented 80 percent of the total participants.

The activities and training programs were distributed between the General Administration, the branches and offices of the West Bank and the Gaza Administration, as follows:

Region	Percentage of total programs	Percentage of total participants	Number of training hours	Total costs
The General Administration	60%	32%	3076	$186,573
The branches and offices of the West Bank	27%	54%	1328	$61,683
The Gaza Administration	13%	14%	193	$17,689

These programs were also divided into the various sectors of the Bank as follows:
The business sector had the largest percentage in terms of the number of programs, the number of participants and the total cost, and had the lion's share of the budget.

Sector	Percentage of the number of programs	Percentage of the number of participants	Number of training hours	Total costs
Business sector	44%	79%	2153	$153,044
Support sector	39%	16%	1835	$82,677
Control sector	17%	5%	609	$30,224

The Training Center implemented these programs in-house, home, and abroad as follows:

A number of employees of Al-Quds Bank have been dispatched to participate in workshops, forums, conferences and training courses outside the State of Palestine, aiming to keep pace with global and international developments in the banking sector. The greatest emphasis was placed on in-house training through specialized programs tailored for the Bank's employees, with the participants of in-house trainings representing 89 percent of the total number of participants in the training activities and programs.

Sector	Number of programs	Percentage of the number of participants	Number of training hours	Total costs
Training abroad	30	3%	1154	$127,693
In-house training	58	89%	1400	$88,971
Local training	40	8%	2043	$49,281

Support and Investment

Social Responsibility

Social Responsibility

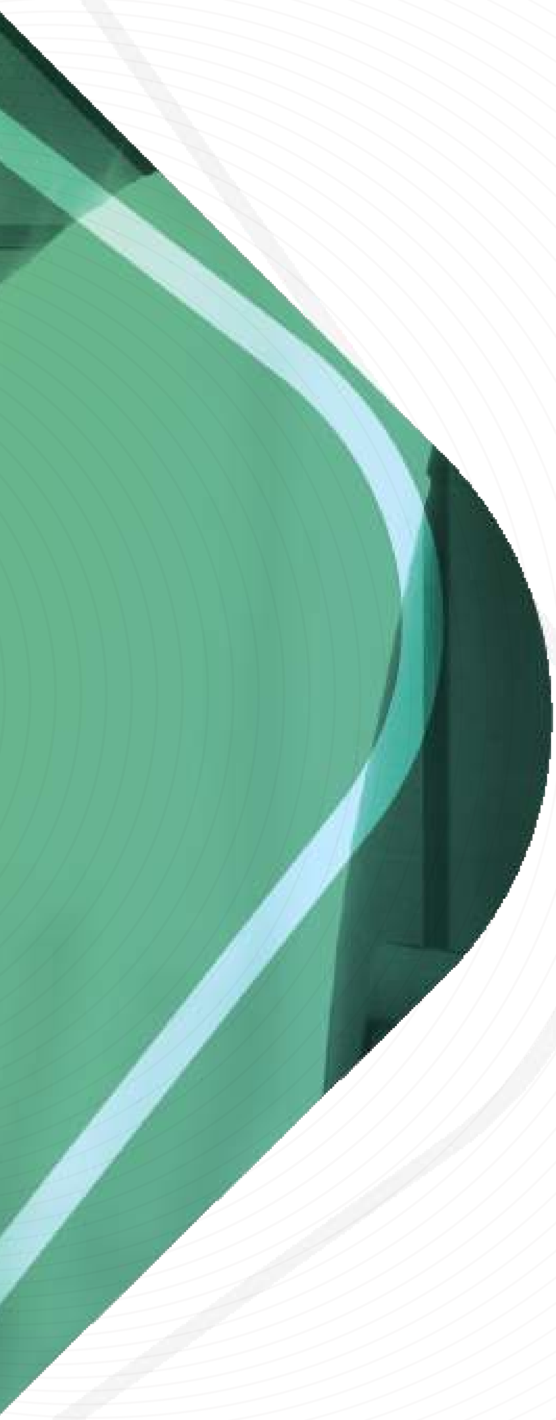
During the year 2019, the Bank remained committed to its societal responsibilities towards individuals and institutions of the local community, with the social responsibility programs covering various fields. During the year, support and donations were provided to many health, educational, cultural, social, humanitarian and sports centers and institutions.

The Bank also maintained communications with bodies and institutions and supported them in implementing their community activities. Further, the bank sponsored many charitable activities carried out by these institutions as part of their efforts to combat poverty, hunger and unemployment. It also sponsored a number of cultural, sports and social festivals and participated in many national events.

During 2019, Al-Quds Bank spent a total of $237,822 on social responsibility in the forms of donations and sponsorships. The Bank also sponsored and provided donations to about 67 community activities.

Contributions by sector	Value of societal contribution in USD
Health and environment	22,795
Ports	23,088
Development	34,160
Education	51,210
Childhood	9,358
Women	12,822
People with special needs	10,481
Culture	7,062
Relief	50,335
Innovation and youth	16,511

News about Al-Quds Bank



Shareholder Relationships

Shareholder Relationships

Al-Quds Bank builds and maintains positive relationships with all shareholders based on transparency, striving to communicate and build positive relationships with them by all possible means, whether through the Shareholders Section or through our widespread branches. The Bank is also keen to hand over the annual report that is released at the end of each year, as well as encourages the shareholders by all means, especially small ones, to attend the annual meeting of the bank's general assembly. During the annual meeting, shareholders are encouraged to conduct voting either in-person or through a special power-of-attorney in the event of their absence

During these annual meeting of the General Assembly of the Bank, the following takes place:

• The heads of the committees emanating from the Council attend the meeting.
• Representatives of the external auditors attend the annual meeting of the General Assembly in order to answer any questions that may be raised regarding the audit and the auditor's report.
• Representatives of the Palestinian Monetary Authority are invited to attend the meeting in order to be informed of what is going on.
• During the annual meeting of the General Assembly, attendees would elect members of the Council who meet the qualifications and conditions at the end of the term of the Council.
• Attendees would elect the external auditor and determine their fees, or otherwise authorize the Board of Directors to determine their fees.
• Documenting the minutes and the reports on the course of events during the annual General Assembly meeting, including the results of voting and the questions raised by shareholders regarding their contributions.
• The Bank publishes the annual report on its website, and maintains communication with our shareholders on our social media platforms around the clock.

The following table shows shareholders whose contribution exceeds 5 percent as on 12 December 2019:

	By the end of 2019		By the end of 2018	
Name	Number of shares	Rate of contribution	Number of shares	Rate of contribution
Akram Abdullatif Jarab	17,997,363	19.95%	16,679,670	19.95%
Jordan Kuwait Bank Company	9,017,275	10%	8,357,067	10%
Palestine Pension Agency	8,115,547	8.9%	7,521,360	9%
Al-Shorouq Company for Financial and Real Estate Investments	4,519,174	5.01%	5,513,720	6.59%

The following table shows the shares of the members of the Board of Directors until 31 December 2019, compared with the shares they had at the end of the previous year until 31 December 2018:

Name	Nationality	Position	Number of owned shares 2019	Number of owned shares 2018
Akram Abdullatif Jarab	Jordanian	Chairman of the Board	17,997,363	16,679,670
Duraid Akram Jarab	Jordanian	Deputy Chairman of the Board	3,222,825	2,986,863
Jordan Kuwait Bank Company	Jordanian	Member of the Board	9,017,275	8,357,067
Palestine Pension Agency	Palestinian	Member of the Board	8,115,547	7,521,360
Walid Najib Al-Ahmad	Palestinian	Member of the Board	53,400	75,740
Muntaser Abu Dawwas	Jordanian	Member of the Board	44,248	41,009
Saleh Jabr Ahmad Hamid	Jordanian	Member of the Board	1,955,348	1,992,500
Ahed Fayeq Bseiso	Palestinian	Member of the Board	120,108	111,315
Ruba Masrouji Alami	Palestinian	Member of the Board	118,690	110,000
Majed Awni Mohammad Abu Ramadan	Palestinian	Member of the Board	35,607	33,000
Hamed Abdul-Ghani Jabr	Jordanian	Member of the Board	1,655,664	1,719,800
Al-Shorouq Company for Financial and Real Estate Investments	Palestinian	Member of the Board	4,519,174	5,513,720

Table of ownership of the relatives of the Board Members for the year 2019:

Name	Number of shares 2019	Number of shares 2018	Degree of kinship
Akram Abdullatif Hasan Jarab	**17,997,363**	**16,679,670**	**Chairman of the Board**
Muhannad Akram Abdullatif Jarab	3,253,411	3,015,210	Son of Mr. Akram Jarab
Duraid Akram Abdullatif Jarab	3,222,825	2,986,863	Son of Mr. Akram Jarab
Yazan Akram Abdullatif Jarab	3,052,626	2,829,126	Son of Mr. Akram Jarab
Zaid Akram Abdullatif Jarab	3,044,345	2,821,451	Son of Mr. Akram Jarab
Al-Shorouq Company for Financial and Real Estate Investments	**4,519,174**	**5,513,720**	**Member of the Board**
Ibrahim Ahmad Abdul-Fattah Abu Dayyeh	168,055	12,100	Chairman of the Board of Al-Shorouq Company
Ahmad Ibrahim Abu Dayyeh	-	550	Deputy Chairman of the Board of Al-Shorouq Company
Duraid Akram Abdullatif Jarab	**3,222,825**	**2,986,863**	**Deputy Chairman of the Board of Directors**
Akram Abdullatif Hasan Jarab	17,997,363	16,679,670	Father
Muhannad Akram Abdullatif Jarab	3,253,411	3,015,210	Brother
Yazan Akram Abdullatif Jarab	3,052,626	2,829,126	Brother
Zaid Akram Abdullatif Jarab	3,044,345	2,821,451	Brother
Saleh Jabr Ahmad Hamid	**1,955,348**	**1,992,500**	**Member of the Board**
Rami Saleh Jabr Musallam	25,356	38,500	Son
Ramzi Saleh Jabr Hamid	16,486	11,744	Son
Rola Saleh Jabr Hamid	19,711	16,500	Daughter
Lina Saleh Jabr Musallam	19,711	16,500	Daughter
Dina Saleh Jabr Musallam	19,711	16,500	Daughter
Jamil Mohammad Yousef Musallam	-	16,500	Wife
Kamal Jabr Ahmad Hamid	160,000	400,000	Brother
Fahad Jabr Ahmad Hamid	-	7,000	Brother
Ruba Mohammad Mahmoud Masrouji	**118,690**	**110,000**	**Member of the Board**
Mohammad Mahmoud Yousef Masrouji	474,760	440,000	Father
Masrouji Company for General Trade	356,070	330,000	Member of the Board
.Jerusalem Pharmaceuticals Co. Ltd	422,007	391,110	Shareholder
Dina Mohammad Daoud Alami	1,621	1,503	Daughter
Nadin Mohammad Daoud Alami	2,100	1,503	Daughter
Dara Mohammad Daoud Alami	2,000	1,503	Daughter
Walid Najib Mustafa Al-Ahmad	**53,400**	**75,740**	**Member of the Board**
Jerusalem Real Estate Investments Company	500,000	500,000	Walid Al-Ahmad – Director-General
Azzam Najib Mustafa Al-Ahmad	64,923	60,170	Brother
Husni Naji Mustafa Al-Ahmad	16,230	15,042	Brother
Ranwa Qadri Mohammad Al-Ahmad	-	5,000	Wife

The following table shows the ownership of the Executive Management as of December 31, 2019, compared to December 31, 2018:

Name	Nationality	Position	Number of owned shares 2019	Number of owned shares 2018
Salah "Mohammad Salim" Salah Hedmi	Palestinian	CEO	20,000	-
Munther Mohammad Abdulrahma Odeh	Palestinian	Senior Deputy CEO Director of Credit Quality Department	33,707	31,240
Zaid Akram Abdullatif Jarrab	Palestinian	Director of the Strategic Planning Department	3,044,345	2,821,451
Albert Edmond Emile Habash	Palestinian	Director of Credit Department	13,950	-

At Al Quds Bank, we strive to maintain a fruitful relationship with shareholders and investors by answering their inquiries and keeping in touch with them all the time.

Information is communicated to the shareholders through:

- The annual report that is sent annually together with the invitation of the General Assembly through manual mail.
- The branches of the bank.

The total salaries and remunerations of the senior executive management amounted to $1,751,545 during the year 2019, compared to $1,595,912 during the year 2018.

Trading activity for the year 2019

Summary of the trading activity for the year 2019 for the share of Al Quds Bank

Statement	2019	2018	Change	Percentage of change
Number of traded shares	15,793,610	14,500,696	1,292,914	8.92%
Value of traded shares	27,874,933	29,703,293	(1,828,360)	-6.16%
Number of deals executed	1,909	1,956	(47)	-2.40%
Highest trading price (USD)	1.97	2.40	(0)	-17.92%
Closing price at the end of the year (USD)	1.58	1.88	(0)	-15.96%

Expenses of members of the Board of Directors 2020

Name	Number of council sessions	Attendance	Remuneration of members of the Board of Directors for the year 2019	Allowance for attending meetings of the council and committees	Travel and transportation allowance	Total expenditures of the Board of Directors during 2019
Akram Abdullatif Jarrab	6	5	50,000	5,000	2,583	**57,583**
Duraid Akram Abdullatif Jarrab	6	6	25,000	12,000	8,248	**45,248**
Palestine Pension Agency, represented by Dr. Ahmad Abdussalam Majdalani	6	4	25,000	11,000	-	**36,000**
Walid Najib Al-Ahmad	6	6	25,000	11,000	-	**36,000**
Ahed Fayeq Bseiso	6	6	25,000	23,000	-	**48,000**
Al-Shorouq Company for Financial and Real Estate Investments represented by Mr. Ibrahim Abdulfattah Abu-Dayyeh	6	6	25,000	14,000	5,250	**44,250**
Jordan Kuwait Bank, represented by Mr. Haitham Battikhi	6	6	25,000	6,000	3,280	**34,280**
Ruba Masrouji Alami	6	6	25,000	9,000	-	**34,000**
Saleh Jabr Hamid	6	6	25,000	6,000	4,500	**35,500**
Dr. Hamed Abdulghani Jabr	6	6	25,000	8,000	-	**33,000**
Muntaser Izzat Abu Dawwas	6	5	25,000	11,000	5,410	**41,410**
Dr. Majed Awni Abu Ramadan	6	6	25,000	6,000	2,803	**33,803**
Total			**325,000**	**122,000**	**32,075**	**479,075**
VAT			**52,000**	**19,520**	**-**	**71,520**
Total expenses of members of the board including VAT			**377,000**	**141,520**	**32,075**	**550,595**
Surplus of the expenses allocated for the board for the year 2018						**(45,040)**
Total expenses of members of the board including VAT for the year 2019						**505,555**

Governance

Governance

Adherence to Institutional Governance

In line with the bank's strategic vision, its board's belief in the importance of the appropriate institutional governance practices, the banking regulations, the PMA's instructions and the Basel Committee's recommendations on institutional governance, the Palestinian banking governance guidlines and best practices, the bank's mission to provide best modern banking services for all the categories of the Palestinian society, the Board of Directors has committed itself to implementing the institutional governance guidline in accordance with the Palestinian banking environment, legislations and regulations governing the operations of the banking sector in the country and the instructions of the PMA and the Palestine Exchange.

The bank reviews, develops and finetunes this manual to keep pace with the latest relevant updates and instructions and publishes it as part of the annual report on the website of the bank. This manual is also available to the public upon request.

Board of Directors

The Board of Directors should ensure:

- Separation between the positions of the Chairman of the Board and that of the Chief Executive Officer (CEO).
- No kinship up to the third degree between the Chairman of the Board and the CEO.
- Separation between the responsibilities of the Chiarman of the Board and those of the CEO in accordance with written instructions approved by the board. These instructions should be subject to review when needed.
- Exercise by the Chairman of the Borad of all the powers and authorities confered upon him according to the applicable laws in Palestine and the regulations of the PMA, as well as the authorities granted to him thereby.

Responsibilities of the Chairman:

1. Supervising the performance of the bank and implementation of the policies set by the board to realize the targets and goals of the bank. He is also in charge of monitoring and evaluating the general performance of the bank according to the strategies, plans, goals, policies and budgets approved by the board.
2. Ensuring effective and high-quality institutional governance within the bank and creating institutional governance-based constructive relationships between the the members of the board and the executive management. The Chairman also contributes to promoting the institutional culture within the board by instilling a culture of constructive criticism and encouraging views sharing in the meetings of the board. He also ensures a timely communication of appropriate and adequate information to all the members of the board and shareholders.

Responsibilities of the Board of Directors:

• Management of the activities of the bank, maintaining its solvency and approving the regular financial statements reviewed by the external auditor as well as the recommending the General Assembly to accept the external auditor of the bank. Additional tasks include ensuring a proper response to the requirements of the PMA and taking care of the interests of the shareholders, depositers, debitors, employees and other relevant entities. In addition, the Board makes sure that the management of the bank is appropriately done in accordance with the applicable laws and regulations as well as the bank's internal policies.

• Drawing the bank's general policy, including the strategies, objectives and business policies. It must regularly develop these policies and ensure their execution by the executive management.

• The Board of Directors is the authority that has the mandate to approve the organizational chart and the job description of the different levels of the bank. It is also mandated to approve the bank's policies and action plan, including risks policies and their execution procedures. The board makes sure that the bank has the tools to measure these risks and set their necessary limits. In addition, it has the mandate to approve the credit and investment policies as well as the policies of employment, performance evaluation and internal controls.

• The Board of Directors chooses the memebrs of the senior executive management of the bank, experts and consultants in accordance with the recruitment and appointment policies approved thereby. It evaluates their performance and determines their salaries and bonuses annually. It must make sure that the bank has a succession plan for the members of the executive management, including qualified substitutes to manage the bank.

• The Board of Directors supervises and monitors the activities of the bank according to the applicable laws, instructions and decisions as well as its internal regulations and in line with the principles of good institutional governance. The board also requests the executive management to submit any necessary reports on due dates.

• The Board of Directors develops a general management framework that includes a suitable organizational chart with clear lines of authority, responsibilities and levels of management. Further, the board develops an integral institutional control system, including internal monitoring and control rules as well as risk management mechanism. The system also includes compliance oversight and anti-money laundering policies as well as conduct and ethics standards. Likewise, it sets clear treasury operations management and anti-fraud and counterfeit regulations.

• The Board of Directors exercises its duties towards the bank with sincerity and diligence. For instance, it ensures that the bank has the necessary mechanisms that secure the bank's compliance with the applicable legislations, regulations and laws. The members of the board make sure that they exercise their banking duties with no conflict of interest or any manifestation thereof. They ensure adequate time and effort to fulfil their responsibilities towards the bank.

• The Board of Directors evaluates through its corporate nomination and remuneration committee its performance at least once annually.

• The Board of Directors evaluates the CEO annually.

• The Board of Directors evaluates the departments of the bank (risks, compliance, internal audit, and anti-money laundering).

• Determining the framework of the bank's risk appetite and ensuring its alignment with the strategic objectives, capital, financial plans, incentives and bonuses. It should also publish the framework of the risk appetite at all the levels of the bank by developing an understandable risk appetite document.

• Organizational responsibilities aimd at ensuring effective and efficient coordination between the different operating units to prevent any gaps in the internal controls or duplicity of tasks (3 defence lines).

• The Board of Directors should develop, in partnership with the Executive Management and the Risks Officer, a risk appetite framework and set necessary measures to ensure its implementation and monitoring. The risk governance must involve a strong risk culture and management. The responsibilities and functions of the Risk and Internal Controls Department must be clearly outlined.

Board of Directors Operating Mechanism:

• It holds regular meetings according to the applicable laws and regulations. It must have at least a bimonthly meeting. The items of the agenda of every meeting must be specified to ensure the coverage of all relevant topics.
• The bank provides the members of the board of directors with adequate information prior to the meeting to enable them to reach sound decisions. Draft minutes of the meetings should be distributed within a period of seven days from the date of the meeting, and must be signed by all the members of the board. A copy of the draft minutes must be provided to the PMA within a period of one month from the date of the meeting.
• The Board of Directors has the mandate to officially appoint and dismiss the Secretary General of the board, taking into consideration the knowledge and experience the Secretary General should have due to the importance of this position. He is responsible for documenting the minutes of all meetings held and the decisions made by the board and subordinate committees.

Board of Directors Committees

• The Board of Directors is ultimately responsible for running the bank's businesses and affairs. It establishes committees to increase the board's efficiency, effectiveness, competence and transparency. These committees are required to submit their reports to the Board of Directors, which determines their tasks, duties, responsibilities, tenure and powers in writing according to the applicable laws and regulations.
• The Board of Directors appoints the members of these committees officially and transparently. It publishes their names and a summary of their tasks and duties within the annual report of the bank. Each committee of the board has the right to directly contact the Executive Management of the bank through the Chairman of the Board and the CEO.
• The Board of Directors forms five main committees (executive committee, audit committee, risks and compliance committee, institutional governance, nominations and remuneration committee, investment committee). Each of these committees has responsibilities determined by the Board of Directors according to the applicable laws and regulations. Ad hoc committees could be formed from the members of the Board of Directors to timely address certain issues. A number of committees could be merged together, if necessary.

a. Executive Cmmittee:

The Executive Committee was elected and comprised of four elected members of the Board of Directors to ensure the compliance of the Executive Management with the credit and investment policies and the powers determined by the board. The members of the committee should have the necessary expertise and skills. It submits its reports and recommendations to the board and convenes regularly with the presence of the CEO or whoever he authorizes.

The Executive Committee duly writes the minutes of these meetings and exercises responsibilities under the supervison of the board in accordance with the applicable laws and regulations as well as the instructions of the PMA. It commits itself to best international practices and the regulatory framework of Basel Committee on Banking Supervision.

The Executive Committee is chaired by the Chairman of the Board,Mr. Duraid Jerab, with the membership of Waleed Al Ahmad, Saleh Jaber Hmaid and Ruba Masrouji. It may invite any person it deems appropriate to attend its meeting.

Responsibilities of the Executive Committee:

• Authorizing credit and investment transactions that are beyond the mandate of the Executive Management.

• Setting forth the bank's credit and investment policy, credit facilities terms and particulars, guarantees and credit limits as well as the powers of the executive committees according to the applicable laws and regulations of the PMA. It alsoregularly reviews and updates all of the abovementioned items based on the changing economic and banking policies environment.
• Making certain of the Executive Management compliance with the credit policies and the powers determined by the board.
• Considering defaulted debts and setting forth plans to reduce them, and making sure that there are adequate loans provisions in accordance with the regulations of the PMA. It also submits recommendations in relation to writing off these debts.
• Submitting regular reports to the Board of Directors about the status of the credit portfolio. These reports should provide information on the volume of the portfolio, classified facilities, loss provisions and loan collection efforts. It should also provide information on the bank's investment portfolios and any changes thereby.

b. Audit Committee:
The elected Audit Committee is comprised of 3 non-executive members of the board. They are all qualified and experienced in accounting and finance management. The committee performs its activities under the supervision of the board and submits its reports and recommendations to it. The Audit Committee comvenes (4) times per year in the presence of the Manager of the Audit Department. It duly writes the minutes of these meetings and exercises its responsibilities and duties according to the applicable laws and legislations and the instructions of the PMA as well as the best international practices and regulatory framework of Basel Committee on Banking Supervision. It may invite to its meetings any person it deems to be appropriate. It is chaired by Dr. Ahmad Majdalani and has Ahed Bseso and Mutasir Dawas as members.

Responsibilities of the Audit Committee

• Supervising external and internal auditors and monitoring the inclusiveness of their performance as well as the integrity and accuracy of the financial information provided for the Board of Directors, shareholders and other beneficiaries.
• Reviewing the comments of the reports of the PMA and the external and internal auditors, in addition to monitoring the measures taken thereby.
• Ensuring the competence of the bank's internal monitoring procedures and their compliance with the laws, regulations and instructions issued by the PMA as well as the rules of the board and other Palestinian applicable legislations.
• Reviewing the periodic financial statements and information before submitting them to the board to scrutinize their adequacy according to the applicable accounting principles and the requirements of the PMA, as well as the adequacy of the necessary provisions.
• Ensuring necessary independence for the Department of Internal Audit to perform its duties, agreeing to appointing or dismissing its manager performimg annual evaluation for him, and setting accountability mechanisms for the Audit Department to enable its staff to do their duties and approving the duties and powers delegated to it.
• Considering financial reports before their submitting to the Board of Directors, and providing recommendations thereby. The Audit Committee also provides reports on any changes in the applicable accounting policies or any changes on the bank's accounts due to the auditing process or suggestions provided by the accounts auditor. It ascertains the accuracy of the accounting and controls procedures, their propriety and the bank compliance therewith.
• Providing advice for the board on nomination, appointment, and end of service, remuneration and election of the external auditor by the General Assembly. Making certain that the external auditor is qualified and meets the conditions of the PMA and the applicable laws and legislations.
• Setting forth disclosure and transparency standards and submitting them to the board for approval.

• Coordinating with the Risk Management Department to keep the financial position of the bank and its performance transparent.
• Considering any issue brought to its attention by the board or any issue it deems appropriate to consider and express opinion thereof.

c. Risk and Compliance Committee:
The elected Risk and Compliance Committee was comprised of 3 members with the necessary knowledge, skills and expertise. The committee performs its activities under the supervision of the Board of Directors and submits its reports and recommendations to it. It convenes 4 times annually in the presence of the CEO or the one authorized by him. It duely writes the minutes of its meetings and performs its duties and responsibilities according to the laws, legislations and instructions of PMA as well as best international practices and regulatory framework of Basel Committee on Banking Supervision. The committee may invite any person it deems appropriate to its meetings. The committee is chaired by Mr. Muntasir Dawwas, and has Ahed Bsesso and Ibraheem Abu Dayyah as members.

Responsibilities of the Risk and Compliance Committee:

• Reviewing the policies and strategis of the Risks Department which follows up all types of risks facing the bank, including, inter alia, credit risks, market risks, operating risks, liquidity risks, credit concentration risks, interest rate risks). They must be reviewed before submitting them to the board for approval.
• Updating the methods and mechanisms of risk reduction in alignment with the relevant control procedures to enhance the bank's financial position against any risks and guarantee its propriety.
• The Executive Management of the bank is responsible for implementing the above-said policies, strategies and approaches under the supervision of the Risk and Compliance Committee.
• Receiving suggestions from the Eecutive Management about the organizational chart of the Risks Department and its development. The committee reviews the suggestions and introduces amendments to submit them to the board for approval.
• The committee keeps itself up-to-date on the fast developments and increasing complications that the Risk Department goes through. It submits its periodic reports on these developments to the board.
• Obtaining all information about any matter within the sphere of its concern.
• Reviewing the reports of the Compliance Department and its adherence to the operating procedures manual. It also reviews the inclusiveness of these reports and consistence with the relevant requirements of the PMA to realize the maximum level of compliance with the appropriate banking laws, regulations, instructions and practices.

d. Corporate Governance Committee:
The elected Corporate Governance Committee was comprised of 3 non-executive members of the Board of Directors to coordinate and implement the governance policy. The members of the committee have the ability to read and understand the financial statements. They also have the ability to coordinate and link between the department and the complementary tasks of governance and audit committees. They also have adequate legal and banking expertise.
The committee convenes twice a year. It is chaired by Ahed Bsesso and has Hamed Jaber and Ibraheem Abu Dayyah as members.

Responsibilities of the Corporate Governance Committee:

• Supervising the implementation of the governance policy through joint action with both the Administration and the Audit Committee.
• Providing the board with tasks-based reports and recommendations, including its evaluation of

the department's compliance with the banking governance manual and its suggestions to align the manual with best international practices.
• Preparing and reviewing the corporate governance manual according to the laws, legislations and instructions issued thereof.
• Setting forth the measures necessary for realizing the items of this manual.
• Monitoring all relevant developments.
• Annual review of the manual and publishing it at large.
• Making sure that the Executive Management monitors the activities of the bank appropriately and exercises its responsibilities according to the internal control rules and regulations issued by the PMA.

e. Remuneration and Nomination Committee

The Remuneration and Nomination Committee is comprised of 3 non-executive members of the board with adequate knowledge, skills and expertise in the required field. It can take its decisions independently and objectively. The committee acts under the supervision of the Board of Directors and presents its reports and recommendations to it. It convenes twice a year in the presence of the CEO or whoever he authorizes. The committee duely writes the minutes of its meetings. It is chaired by Ahed Bsesso and has Hamed Jaber and Ibraheem Abu Dayyah as members.

Responsibilities of Remuneration and Nomination Committee

• Preparing standards to be approved by the Board of Directors to set the conditions and qualifications that the members of the Board of Directors must meet in terms of skills, experience and other areas deemed necessary.
• Writing a report to be submitted by the Board of Directors to the shareholders to elect or re-elect its members. The report presents the following information:
    a) Term of membership and the professional qualifications and knowledge the candidate should have in the field of banking and management of other companies. It also describes the other positions the candidate occupies and the relationship between the candidate and the bank on one hand and his relationship with the other members, on the other.
    b) Submitting a statement verifying that the candidate has met the requirments set out in the definition of the independent member upon his appointment.
    • Submitting recommendations to the Board of Directors concerning the changes that should be made with regard to the number of the members of the board or any of its committees.
• Identifying qualified members and submitting recommendations to the board concerning the candidate for occupying a seat if there is a vacancy at any of the board's committees.
• Supervising the general policies of human resources.
• Examining the eligibility of all the candidates of the shareholders suggested for the membership of the board or any other candidates suggested by the Executive Management.
• Submitting recommendations to the board about the changes the committee deems necessary for the structure of the Executive Management and job description of the key officers.
• Setting an appropriate plan to place the chairman and members of the board and key officers and to replace them in emergency situations or in case of new vacancies.
• Evaluating the performance of the board, its committees and members at least once a year.
• Suggesting remuneration and incentives policy and submitting it to the board for approval and supervising its application.
• Reviewing the remuneration and incentives policy periodically, or upon the board's request and presenting it with recommendations for amending or updating the policy.
• Conducting periodic evaluation of the effectiveness and efficiency of the remuneration policy to make certain that its goals are realized.
• Ensure that there is consistency between the bonus payment period and the actual realization of the revenue.

• Submitting recommendations to the board concerning the level of the remunerations and allowances the chairman and members of the board as well as the key officials of the bank receive.
• Ensure that the remuneration and incentives policy takes into account all types of risks which the bank could be exposed to when the value of the remuneration is determined.
• Ensure that the remuneration and incentives policy is consistent with the instructions of the PMA and the bylaws of the bank.

f. Investment Committee
A joint Investment Committee comprised of (6) members of the Board of Directors and Executive Management was elected. All the members of the committee are qualified and experienced in investment, accounting and financial management. It performs its activities under the supervision of the board and submits its reports and recommendations to it. The committee convenes upon need and duly writes its meetings' minutes.
It does performs its duties and responsibilities according the applicable laws and legislations as well as the instructions of the PMA and best international practices.
The committee may invite to its meetings any person it deems appropriate. It is chaired by Ahmad Majdalani and has Ibraheem Abu Dayyah, Ruba Masrouji, Salah Hidmi, Zaid Jereb and Alber Habash as members.

Responsibilities of the Investment Committee:

• Monitoring and reviewing investment instruments, periodic reports and the present and potential investments of the bank.
• Providing new investment opportunities, making investment decisions and submitting recommendations to the Board of Directors.
• Considering the issues brought to its attention by the Board of Directors or any other issue it deems necessary to consider and express opinion thereby.

Internal Control and Monitoring System

• Quds Bank has built its Internal Control and Monitoring System based on the general framework of the internal monitoring system and the instructions of the PMA as well as the applicable laws and guidelines therein.
• The organizational charter of the internal control and monitoring is reviewed by the internal and external auditor at least once a year.
• In addition to the financial statements, the bank shall include into its annual report a statement on the competence of the internal control and monitoring systems.
• The Board of Directors carries out its responsibilities based on a general framework of internal control and monitoring to verify the efficiency and effectiveness of the financial reports and adherence to the applicable laws and regulations.
• Setting procedures that ensure decision-makers timely access to information, including the emergency plan.
• Independency of the Audit and Compliance Departments as well as Anti-money Laundering, Preventing Financing of Terrirosim and Risks Department.

3. Internal Audit

Quds Bank is mindful of the importance of having effective internal department. It is viewed as the third defense line and added value to the bank. It helps realize the bank's goals and improve its operations by setting a thorough methodology to improve the competence of its governance, risk management and internal monitoring.

The objectives and responsibilities of internal audit:

• Setting forth an internal audit charter to be approved by the Board of Directors to specify the roles, responsibilities and powers of the department.
• Preparing an annual risk-based audit plan. It must be approved by the Audit Committee of the board.
• Checking and assessing the suitability and efficiency of the internal control regulations and the mechanism used by all departments and sections to do their duties and minimize the risk thereof.
• Writing periodical reports on the competence of the internal control and monitoring regulations to minimize the risks which the bank faces and to upgrade the monitoring environment to acceptable levels.

4. Compliance Department

Within the context of compliance with the requirements of Basel Committee on Banking Supervision, Quds Bank has established the Department of Compliance as an independent department entrusted with supervising compliance with the laws, regulations and legislations set by oversight bodies to act according to best banking practices.
The Department of Compliance has enumerated the laws, regulations and instructions governing the bank and educated its staff about the concept of compliance through several training courses and workshops. The bank seeks to ensure the independency of the compliance department and keep providing it with a competent and well-trained staff.

Responsibilities of the Department of Complaince

• Designing, reviewing and updating the compliance manual periodically, and in case of need.
• Preparing an effective mechanism that ensures the bank's compliance with the applicable laws and legislations as well as the relevant directives and guidelines.
• Submitting periodic reports on the outcomes of its activities and watch of compliance to the Risk and Compliance Committee of the Board of Directors.
• Evaluating and monitoring the application of the corporate governance in the bank.
• Monitoring the application of and compliance with the Foreign American Tax Compliance Act (FATCA).

5. Anti-Money Laundering and Countering the Financing of Terrorism Department:

Al Quds Bank seeks to implement the best standards of anti-money laundering and countering the financing of terrorism through its compliance with all the laws, regulations, instructions, orders, codes of conduct and appropriate banking standards and practices issued by local and international monitoring entities.
Given international developments and in alignment with the best practices of countering money laundering and implementing monitoring entities' requirements, the department carried out the following:

• Establishing Anti-Money Laundering and Countering the Financing of Terrorism Department with qualified staff.
• Approving two systems to promote oversight and monitoring of accounts:
- An automated system for examining all financial transactions data to ensure that they are not included within the prohibited international lists, such as the OFAC\UN lists.
- An automated system for combating money laundering and terror financing operations. It checks and monitors all financial transactions that take place on the bank's customers' accounts. It also discovers and limits suspicious transactions in order to protect the bank's financial system from exploitation and minimize money laundering and terrorist financing operations.

6. Risks Department:

The Bank's management has attached special attention to the requirements of the Basel Committee and the instructions of the Palestinian Monetary Authority as a reference for consolidating and enhancing the bank's ability to improve the monitoring environment and challenge the various types of risks facing it.
Given the political and security instability in the occupied Palestinian territory, the administration of the bank took practical steps to counter risks. It established specialized risks departments, including credit, operating, market and liquidity departments. These departments were equipped with qualified staff and modern equipment. The bank also built an alternative site for running every day transactions in emergency situations and set plans to confront risks and disasters based on the results of the analysis of the impacts of the potential scenarios.
It also applied the CARE application to manage operating risks and created risk file for all the branches of the bank. The bank further created a database of operations errors.
The bank promoted the structures which govern the credit risks department by separating the responsibilities of the corporate credit, SME and individuals credit departments. In the same vien, it enhanced oversight on credit, monitoring and collection. The bank also developed the policies and procedures of the risks department, so that it can keep the quality of the credit portfolio.
The bank established the Risk and Compliance Management Committee at the level of the Executive Management. The Committee reviews and assesses the risks of the bank's departments and submits its periodic reports to the Risks and Compliance Committee of the Board of Directors.

The Risks Department performs the following duties within the general framework:
a) Submitting its periodic reports to the Risks and Compliance Committee of the Executive Management. Concerning its daily activities, it remains subject to the CEO.
b) Responsibilities of the Risks Department

• Setting risks policies for all types of risks to be approved by the Board of Directors.
• Analyzing all the risks, including credit risks, market risks, liquidty and operating risks.
• Developing measurement and control mechanisms for each type of risks.
• Submitting recommendations to the Risks and Compliance Committee of the Executive Management concerning risks limits, approvals, submission of reports and documenting exceptional cases where the risks department policies aren't applicable.
• Providing the Board of Directors and the senior Executive Management with information about the bank's risk measurement and risk profile. The Board of Directors regularly reviews the reports of qualitative and quantitative risks.
• Approval of Risks Management Means and as follows
   1. Risks self-assessment and setting risks indicators.
   2. Preparing a chronological data-base of losses, identifying the cuases of these losses, classifying them according to the type of the risk, identifying the controls that led to such losses and suggesting support mechanisms or adding new controls to avoid such gaps in the future.
   3. Providing necessary equipment and risk-management appropriate automatic systems.
   4. Developing emergency plan and keeping it updated. It must be ensured that the bank is ready to implement it in emergency cases.

c) The bank's credit committees and assets and liabilities departments help the Risks Department fulfill its duties according the authorities delegated to these committees.
d) Providing the annual report of the bank with information about the organizational chart and the operations of the risks department in accordance with Basel Committee's disclosure rules.
e) Providing information about the risks the bank has for the purpose of disclosure and to the public.

External Audit

Exeternal audit is another level of control and monitoring over the credibility of the financial statements issued by the bank's accounting and information systems, especially those related to the auditor's express opinion about how fair and realistic these statements are.
The bank makes sure that the external auditor is certified by the PMA and has not received any direct or indirect credit facilties from the bank. The Board of Directors must take into consideration the regular turnover and experiences of the auditor with other institutions.

Responsibilities of the External Auditor:

1. Auditing the financial statements and accountancy records of the bank in compliance with IFRS and IAS standards.
2. Complying with minimum disclosure requirments in financial statements issued by the PMA.
3. Observing full confidentiality in accordance with professional codes of conduct.
4. Providing the Review and Audit Committee with a version of the report.
5. Attending the meetings of the General Assembly of the bank to answer to shareholders queries.
6. Providing the PMA with a version of the annual report of the bank within a period of two months from the date of the end of the fiscal year. The report should include:
    - Any breach of the provisions of the relevant applicable laws and regulations as well as the bank's internal instructions.
    - The External Auditor's opinion about the adequacy of the internal monitoring and control systems and that of the potential risks provisions.
    - Verifying the fairness of the statements given to him for auditing.

Professional Code of Ethics

The bank has adopted the Professional Code of Ethics approved by the Board of Directors and pledged to have all its personnel and members of the board comply thereby. The Code of Ethics explains the repercussions of the breach of any of its provisions and specifies the ethics, values and principles of the staff, including integrity, compliance with laws, transparency and loyalty to the bank.

The Relationship between the Bank and the Shareholders

• The bank develops positive relationships with all the shareholders and encourages them, especially small ones, to attend the annual meeting of the General Assembly. It encourages them to vote in person or by proxy.
• The shareholders are sent an invitation to the meeting of the General Assembly, with its agenda attached thereto, by email. They also receive an electronic copy of the annual report and a printed one.
• External auditors' representatives attend the annual meeting of the general assembly meeting to answer to any questions that might be asked about auditing and auditor's report.
• Inviting representatives of the PMA to attend the meeting of the General Assembly to keep up-to-date with the situation of the bank.
• Electing qualified members of the new board during the annual meeting of the General Assembly.
• Electing the external auditor and determing his/her remuneration or mandating the board of directors thereof.
• Documenting the sessions and reports of the activities of the bank during the annual meeting of the General Assembly, including the results of the vote and the questions asked by the shareholders concerning their contributions, transparency and disclosure.
Quds Bank corporate governance is characterized by integrity, propriety, honesty, objectivity, transparency, disclosure and openness to the public. These characteristics which distinguish the

bank's decisions are key constituents of good corporate governance.
The bank is bent on timely disclosing all authentic information to help the users of such information make accurate assessment of the bank's financial position, achievements, activities and risks. The bank is also keen on providing periodic information about its activities for the relevant authorities, including PMA, shareholders, depositors and the public with more stress on the issues that have intrinsic impact on its performance.

QUDS BANK

PUBLIC SHAREHOLDING COMPANY LTD.

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

(Translated from the Original Arabic Version)

Table of Contents -

Independent auditor's report to the shareholders of Quds Bank - Public Shareholding Company LTD.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Quds Bank - Public Shareholding Company Ltd. (Quds Bank) (hereinafter referred to as the "Bank") as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by Palestine Monetary Authority.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Other matters

The financial statements of the Bank for the year ended December 31, 2018 were audited by other auditors who expressed an unqualified opinion to these financial statements on March 28, 2019.

Independence

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

Our audit approach

Overview

Key Audit Matters	• Measurement of expected credit loss on direct credit facilities • Fair value of core customer deposit intangibles

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Independent auditor's report to the shareholders of Quds Bank - Public Shareholding Company LTD. (continued)

Our audit approach (continued)

Overview (continued)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.
We tailored the scope of our audit to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key Audit Matters

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

Key Audit Matters	How our audit addressed the Key Audit Matter
Measurement of expected credit loss on direct credit facilities: As shown in note (10) to the financial statements, management estimated the value of the loss impairment allowance for direct credit facilities at USD 28,989,419, and net direct credit facilities at USD 790,511,855, representing 59.41% of the total assets of the bank as at December 31, 2019. We considered the measurement of expected credit loss on direct credit facilities as a key audit matter as the determination of Expected Credit Loss (ECL) involves significant estimates and requires various assumptions which has a material impact on the financial statements of the bank. The key areas of estimates and assumptions used are those used in the calculation of probability of default, loss given default and	We performed the following procedures to evaluate the appropriateness of management's judgement of the measurements of expected credit loss: 1. Understand the nature of the credit facilities portfolio. 2. Understand management's approach used to determine how the debtor is classified. 3. Check the completeness of data underlying the ECL calculation as of December 31, 2019. 4. Use our specialized internal experts to assess the following aspects: - The conceptual framework used in the development of the Bank's impairment policy in the context of its compliance with the requirements of IFRS 9. - The methodology of the expected credit loss model and the factors used to determine the

exposure at default, forward looking information factors and factors used in the categorization of Stages. *Refer to the summary of significant accounting policies notes 3.2.2 b and 3.2.3 to the financial statements for the impairment of financial assets and significant accounting policy relating to measurement of expected credit loss, note (4) which contains the critical accounting judgment, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the bank, note (10) which contains the disclosure of impairment provision against direct credit facilities and note (49) for details of credit quality analysis and key assumptions and factors considered in determination of Expected Credit Loss (ECL) on direct credit facilities.*	probability of default (PD) and loss given default (LGD) and exposure at default (EAD) of the bank's different categories of direct credit facilities. - The bank's assumptions in determining the factors leading to a significant increase in credit risk and recognition of credit exposures within different stages. - The reasonableness of the assumptions used in preparing the model framework, including the assumptions used to assess future scenarios and significant increase in credit risk and compare them with the requirements of IFRS 9 as adopted by the Palestine Monetary Authority. 5. Examine relevant internal control procedures adopted by the Bank. 6. Examine a sample of customers, to assess: - The input data applied by the bank's management to assign specific rating for each customer. - The accuracy of the ECL calculation based on the relevant instructions of Palestine Monetary Authority and IFRS 9. - The bank's information systems relating to the automatic calculation of Days Past Due of direct credit facilities. 7. Evaluate the sufficiency of disclosures included relating to the impairment of direct credit facilities in accordance with the relevant International Financial Reporting Standards.

Fair value of core customer deposit intangibles:	
During 2018 the bank acquired the assets and liabilities of Jordan Kuwait Bank's (JKB) branch in Palestine by issuing stocks equal to 10% of its capital as at the acquisition date and paying USD 33,380,895 in cash to JKB, the total consideration paid for the acquisition amounted to USD 48,340,045. As a result of the acquisition, the bank recognized core customer deposits intangibles. The acquisition process requires management's judgement to determine the fair value of net assets as at the date of acquisition and the value of intangible assets and assignment of their useful lives in accordance with International Financial Reporting Standards. We considered the accounting of the acquisition as a key audit matter due to the judgements involved in this area, and as mentioned in note (15) intangible assets, the bank determined the fair value of core customer deposits intangibles in the amount of USD 2,360,640. *Refer to the significant accounting policies notes 3.2.11 and 3.2.20 to the financial statements for the significant accounting policy relating to the business combination and intangible assets and note (4) which describes the accounting estimates and judgement relating to the fair value of intangible assets acquired and note (15) which discloses the intangible assets resulting from the acquisition.*	We have performed the following procedures and utilized our internal experts where needed to: 1. Understand the methodology used by management to valuate the acquired assets and liabilities. 2. Evaluate managements mechanism for allocating the purchase price over the acquired assets and liabilities. 3. Review the valuation methodology and assumptions used by management to valuate the intangible assets. 4. Evaluate the reasonableness of the discount rate used by management in calculating the value of intangible assets and their useful lives. 5. Review the accuracy of the calculation model used by management to determine the value of intangible assets. 6. Evaluate the sufficiency of disclosures related to the acquisition in the financial statements.

Independent auditor's report to the shareholders of Quds Bank - Public Shareholding Company (Quds Bank) (continued)

Other information

Management is responsible for the other information. The other information comprises all the information included in the Annual Report of the Bank for 2019 (but does not include the financial statements and our auditor's report thereon) and is expected to be made 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 will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the other information identified above if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by Palestine Monetary Authority (PMA), and the applicable laws and regulations of Palestine and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent auditor's report to the shareholders of Quds Bank - Public Shareholding Company (Quds Bank) (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

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

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Independent auditor's report to the shareholders of Quds Bank - Public Shareholding Company (Quds Bank) (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

For and on behalf of PricewaterhouseCoopers Palestine

Hazem Sababa
License number 115/2003
Ramallah, Palestine

March 30, 2020

STATEMENT OF FINANCIAL POSITION
(All amounts are in US Dollars)

	Note	As of December 31, 2019	2018
Assets			
Cash and balances at Palestine Monetary Authority	(5)	242,456,505	252,146,806
Balances at banks and financial institutions	(6)	191,629,137	160,803,286
Financial assets at fair value through the statement of income	(7)	86,340	90,506
Financial assets at fair value through other comprehensive income	(8)	8,189,255	5,663,480
Loan at fair value	(9)	5,077,573	-
Direct credit facilities - Net	(10)	790,511,855	697,803,505
Financial assets at amortized cost	(11)	17,965,360	18,453,012
Investment in associate	(12)	1,510,311	1,433,126
Other assets	(13)	17,782,250	36,844,943
Deferred tax assets	(22)	2,361,598	1,066,727
Rights of use of assets	(14)	17,663,603	-
Intangible assets	(15)	3,903,689	4,775,700
Projects under construction	(16)	5,966,349	3,718,633
Property and equipment - Net	(17)	25,568,216	30,225,404
Total assets		**1,330,672,041**	**1,213,025,128**
Liabilities and shareholder's equity			
Liabilities			
Palestine Monetary Authority deposits	(18)	87,858,600	40,576,000
Banks and financial institutions' deposits	(19)	19,411,962	66,011,852
Customers' deposits	(20)	937,378,335	877,678,532
Cash margins	(21)	93,573,137	81,449,260
Tax provision	(22)	3,364,323	1,952,704
Borrowed funds	(23)	213,645	294,778
Other liabilities	(24)	32,453,308	27,555,199
Subordinated loans	(25)	15,000,000	-
Sundry provisions	(26)	6,594,549	6,063,694
Lease liabilities	(14)	17,298,389	-
Total liabilities		**1,213,146,248**	**1,101,582,019**
Shareholders' equity			
Paid in capital	(27)	90,172,750	83,570,667
Share premium	(28)	-	6,602,083
Statutory reserve	(29)	8,730,503	7,607,752
General banking risks reserve	(29)	3,182,400	3,182,400
Pro-cyclicality reserve	(29)	4,757,269	4,757,269
Fair value reserve	(8)	(3,067,876)	(2,603,012)
Retained earnings	(30)	13,750,747	8,325,950
Total shareholders' equity		**117,525,793**	**111,443,109**
Total liabilities and shareholders' equity		**1,330,672,041**	**1,213,025,128**

The accompanying notes on pages 14 to 118 form an integral part of these financial statements.

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

STATEMENT OF INCOME

(All amounts are in US Dollars)

	Note	For the period ended December 31, 2019	2018
Interest income	(31)	62,892,469	57,957,371
Interest expense	(32)	(15,278,247)	(14,505,562)
Net interest income		**47,614,222**	**43,451,809**
Gross commission income	(33)	7,041,127	6,500,013
Gross commission expenses	(33)	(1,430,982)	(1,201,274)
Net interest and commission income		**53,224,367**	**48,750,548**
Net gain from foreign currency exchange	(34)	8,428,562	7,619,855
Net gain from financial assets	(35)	345,625	71,830
Other income	(36)	144,753	746,552
Operating Income		**62,143,307**	**57,188,785**
Expenses			
Personnel expenses	(37)	(21,298,357)	(20,660,061)
Other operating expenses	(38)	(12,909,232)	(13,630,003)
Depreciation and amortization	(14,15,17)	(5,051,003)	(2,840,766)
Expected credit loss	(10)	(8,522,897)	(4,741,641)
Share of net profit (loss) of associate	(12)	77,185	(136,237)
Provision for Impairment in seized assets	(13)	-	(35,534)
Total expenses		**(47,704,304)**	**(42,044,242)**
Profit before taxes		**14,439,003**	**15,144,543**
Income tax expense	(22)	(3,211,497)	(3,548,702)
Profit for the year		**11,227,506**	**11,595,841**
Basic and diluted earnings per share for the year	(42)	**0.125**	**0.137**

The accompanying notes on pages 14 to 118 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
(All amounts are in US Dollars)

	For the period ended December 31,	
	2019	**2018**
Profit for the year	**11,227,506**	**11,595,841**
Other comprehensive income items:		
Items that will be not be reclassified subsequently to statement of income:		
Change in fair value of financial assets through other comprehensive income (Note 8)	(464,864)	(94,482)
Net other comprehensive income for the year	**(464,864)**	**(94,482)**
Total comprehensive income for the year	**10,762,642**	**11,501,359**

The accompanying notes on pages 14 to 118 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(All amounts are in US Dollars)

	Paid in capital	Share premium	Statutory reserve	General banking risks reserve	Procyclicality reserve	Fair value reserve	Retained earnings	Total shareholders' equity
December 31, 2018								
Balance as at January 1, 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	-	-	-	(10,264,820)	-	-	(645,654)	(10,910,474)
Balance as at January 1, 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 at FVOCI	-	-	-	-	-	273,844	(273,844)	-
Share issuance during the year (note 27,28)	8,357,067	6,602,083	-	-	-	-	-	14,959,150
Stock dividends (note 27)	6,837,600	-	-	-	-	-	(6,837,600)	-
Cash dividends (note 27)	-	-	-	-	-	-	(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, 2019								
Balance as at January 1, 2019	**83,570,667**	**6,602,083**	**7,607,752**	**3,182,400**	**4,757,269**	**(2,603,012)**	**8,325,950**	**111,443,109**
Profit for the year	-	-	-	-	-	-	11,227,506	11,227,506
Changes in fair value	-	-	-	-	-	(464,864)	-	(464,864)
Total comprehensive income for the year	-	-	-	-	-	**(464,864)**	**11,227,506**	**10,762,642**
Stock dividends (note 27)	6,602,083	(6,602,083)	-	-	-	-	-	-
Cash dividends (note 27,30)	-	-	-	-	-	-	(4,679,958)	(4,679,958)
Transferred to reserves	-	-	1,122,751	-	-	-	(1,122,751)	-
Balance as at December 31, 2019	**90,172,750**	-	**8,730,503**	**3,182,400**	**4,757,269**	**(3,067,876)**	**13,750,747**	**117,525,793**

The accompanying notes on pages 14 to 118 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
(All amounts are in US Dollars)

	Note	For the period ended December 31, 2019	2018
Operating activities			
Profit before taxes		14,439,003	15,144,543
Adjustments:			
Depreciation and amortization		5,051,003	2,840,766
Expected credit loss	(10)	8,522,897	4,741,641
Provision for end of service indemnity	(26)	1,494,541	1,517,095
Provision for lawsuits	(26)	100,000	-
Share of net (profit) loss of associate	(12)	(77,185)	136,237
Unrealized loss from revaluation of financial assets at fair value through statement of income	(35)	4,166	12,754
Provision for impairment in seized assets	(13)	-	35,534
Interest on lease liability	(14)	573,208	-
Loss from disposal of property and equipment		606,103	120,954
Loss on sale of other assets (seized)		68,350	-
Interest on Financial assets at amortized costs	(31)	(1,066,508)	(824,884)
Other non-cash items		(201,816)	-
Cash flows from operating activities before changes in operational assets and liabilities		**29,513,762**	**23,724,640**
Statutory reserve at Palestine Monetary Authority		(4,223,462)	(10,983,097)
Increase direct credit facilities - Net		(101,210,064)	(35,303,613)
Loans at Fair value		(5,077,573)	-
Other assets		18,285,590	4,306,783
Customer's deposits		59,699,803	31,521,975
Increase in cash margins		12,123,877	10,258,791
Deposit with Palestine Monetary Authority maturing within 3 months		57,858,651	-
Increase in other liabilities		4,898,109	(614,458)
Cash flows from operating activities		**71,868,693**	**22,911,021**
End of service indemnity paid	(26)	(992,286)	(623,999)
Provision for lawsuits paid	(26)	(71,400)	-
Taxes paid	(22)	(2,892,933)	(3,647,996)
Net cash inflow from operating activities		**67,912,074**	**18,639,026**
Investing activities			
Balances at banks and financial institutions maturing after more than three months	(6)	7,052,186	(7,052,186)
Purchase of financial assets at fair value through other comprehensive income		(2,990,639)	(4,072,126)
Sale of financial assets at fair value through other comprehensive income		-	8,796,746
Investments in associate		-	(1,569,363)
Purchase of financial assets at amortized cost		(7,231,311)	-
Matured financial assets at amortized cost		7,718,963	(9,125,800)
Purchase of intangible assets		-	(35,151)
Cash generated from the acquisition of Jordan Kuwait Bank - Palestine Branch		-	46,569,066
Purchase of property and equipment		(2,640,562)	(3,743,608)
Proceeds from disposal of seized assets		290,847	380,840
Addition to projects under construction		(3,808,805)	(651,541)
Proceeds from disposal of projects under constructions		5,500,000	-
Interest received on financial assets at amortized costs		848,106	651,962
Net cash from investing activities		**4,738,785**	**30,148,839**
Financing activities			
Borrowed funds		(81,133)	(86,910)
Cash dividends	(27)	(4,679,958)	(6,837,600)
Payments of lease liability	(14)	(1,728,370)	-
Subordinated loans	(25)	15,000,000	-
Net cash (outflow) from financing activities		**8,510,539**	**(6,924,510)**
Net increase in cash and cash equivalents		**81,161,398**	**41,863,355**
Cash and cash equivalents, beginning of the year		215,740,612	173,877,257
Cash and cash equivalents, end of the year	(41)	**296,902,010**	**215,740,612**

The accompanying notes on pages 14 to 118 form an integral part of these financial statements.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (1) GENERAL

Quds Bank (hereinafter "the Bank") was established on April 2, 1995 in Gaza as a public shareholding company, Ltd under the registration number (563200880) according to the Companies Law of the year 1929, as amended, with a capital of USD 20,000,000 divided into 20,000,000 shares at a par value of USD 1 per share. The Bank 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 December 31, 2019, the Bank increased its capital to reach an issued and fully paid in capital of USD 90,172,750 divided into 90,172,750 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, 2019.

The number of the Bank's employees (Headquarter and branches) as of December 31, 2019 was (741) employees against (762) employees as at December 31, 2018.

The accompanying financial statements have been approved by the Board of Directors of the Bank in its meeting held on February 18, 2020 and are subject to the approval of the Palestine Monetary Authority and Shareholders' General Assembly.

NOTE (2) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank as of December 31, 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as issued by the International Accounting Standards Board (IASB) IFRS as adopted by the Palestine Monetary Authority (PMA).

The main differences between the IFRS as adopted by the PMA and IFRS as issued by the IASB are the following:

- Provisions for expected credit losses are formed in accordance with the instructions of the Palestine Monetary Authority No (2/2018) "regarding the requirements and guidelines for the application of the International Standard for the Preparation of Total Reports No. 9" and the instructions of the Monetary Authority No. (1/2008) "classification of credit facilities, allowances and acceptable guarantees" and instruction No (03/2020) "regarding underperforming and unscheduled credit facilities of civil servants". Application of the instructions might result in a different number to what would be determined under IFRS.
- Interest and commissions are suspended on non-performing credit facilities granted to clients in accordance with the instructions of the Palestine Monetary Authority. This results in interest and commissions not being recorded.
- Assets that have repossessed and which are now owned by the bank appear in the statement of financial position within other assets by the value that has been owned by the bank or the fair value, whichever is less, and they are reassessed individually on the date of each reporting period , and any decline in their value is recorded as a loss in the statement of income, and the increase is not recorded as revenue, the subsequent increase is recorded in the income statement to the extent that it does not exceed the previously recorded low value. Additional full provision is made for the real estate acquired in exchange for debts that have been in possession of the Bank for more than 5 years. As a result, additional provision may be recorded, and assets may appear at a lower value than under IFRS.
- Sovereigns debt of the Palestinian government are excluded from ECL, so that credit exposures on the Palestinian government are addressed without or with limited credit losses. This would result in lower ECL numbers than under IFRS 9.

Notes to the Financial Statements
(All amounts are in US Dollars)

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

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

The accounting policies used in the preparation of the Bank's financial statements for the year ended December 31, 2019 are consistent with the accounting policies adopted for the preparation of the financial statements for the year ended December 31, 2018 except as described in note (3.1).

NOTE (3) SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these financial statements are consistent with the accounting policies adopted for the preparation of the financial statements for the year ended December 31, 2018, except for the adoption of new standards and amendments to existing standards as mentioned below.

(a) New and amended standards applicable to the Bank

The following standards and amendments to standards have been applied by the Bank in preparation of these financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the Bank, except for the changes mentioned in note 3.1. (c) below on adoption of IFRS 16.

Standards

- **IFRS (16) Leases** (Effective January 1, 2019)

- **Amendment to IFRS 9, Financial instruments',** on prepayment features with negative compensation and modification of financial liabilities - This amendment confirmed two points:

    1. that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and
    2. that when a financial liability measured at amortised cost is modified without this resulting in de recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **IFRIC 23 Uncertainty over Income Tax Treatments** - The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
    1. Whether tax treatments should be considered collectively.
    2. Assumptions for taxation authorities.
    3. The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates.
    4. The effect of changes in facts and circumstances.

Notes to the Financial Statements
(All amounts are in US Dollars)

- **Amendments to IAS 19, employee benefits',** which addresses the plans or discounts or adjustments.

- **Annual Improvements to IFRS Standards 2015 - 2017 Cycle:** includes improvements on IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 12 "Income taxes" and IAS 23 "Borrowing costs".

(b) New standards and interpretations effective for annual periods after January 1, 2020 and not early adopted

IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its longstanding project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after January 1, 2021, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied.

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.
The standard is effective for periods beginning on or after January 1, 2021.

Amendments to IFRS 3 - This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
The amendment is effective for periods beginning on or after January 1, 2020.

Amendments to IAS 1 and IAS 8 - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amendment is effective for periods beginning on or after January 1, 2020.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform - These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that LIBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving LIBOR based contracts, the reliefs will affect companies in all industries.
The amendment is effective for periods beginning on or after January 1, 2020.

Notes to the Financial Statements
(All amounts are in US Dollars)

Transition from LIBOR to risk-free rates

In July 2017, the FCA announced that it would no longer support the London Interbank Offered Rate (LIBOR) after 2021, signaling that LIBOR may cease to exist, at least in its current form, beyond that date.

The Bank has the following instruments which are exposed to the impact of LIBOR as of December 31, 2019:

• Direct credit facilities - Net: USD 312,210,834

The bank does not have any hedging relationships which may be impacted by LIBOR.

The bank is assessing the impact and next steps to ensure a smooth transition from LIBOR to the new benchmark rates. The amendment is mandatory and should be applied for annual periods beginning on or after January 1, 2020, earlier application is permitted.

Except as mentioned above, there are no new relevant standards, amendments to standards and interpretations that are effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies relating to IFRS 16 - Leases

IFRS 16 was issued in January 2016. It has resulted in almost all leases being recognized on the statement of financial position by lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The Bank has applied the standard from its mandatory adoption date of January 1, 2019. The Bank has applied the simplified transition approach and has not restated comparative amounts, prior to the date of adoption of the standard. As allowed under IFRS 16, right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Further the Bank has used the following practical expedients on initial application:
- Used the Bank's previous assessment of which existing contracts are, or contain, lease;
- Where the unexpired lease term on initial application date is less than 12 months or leases are of low value items, then the Bank has elected to use the short-term lease exemption; and
- Exclude initial direct costs from the measurement of right-of-use asset at the date of initial application.

Notes to the Financial Statements
(All amounts are in US Dollars)

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied in the Bank's principal markets was based on benchmark yield rates. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.25%.

(i) The following amounts are recognized under the new standard included in the respective headings of the statement of financial position and statement of income:

	December 31, 2019	**January 1, 2019**
Right of use asset (note 14)	17,663,603	18,463,559
Lease liability (note 14)	17,298,389	17,786,404

	December 31, 2019
Depreciation charge for right-of-use assets (Depreciation)	1,467,103
Interest on lease liabilities	573,208

(ii) Measurement of Lease Liabilities:

Operating lease commitments disclosed as at December 31, 2018	22,718,880
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(4,594,468)
Less low value leases and short-term leases	(338,008)
Lease liability recognized as at January 1, 2019	**17,786,404**
Of which are:	
Current lease liabilities	1,695,545
Non-current lease liabilities	16,090,859

3.2 Summary of significant accounting policies

3.2.1 Segment Information

Business segment represents distinguishable components of the Bank that are engaged in providing products or services that are subject to risks and rewards that are different from those of other segments and measured based on the reports that are used by the Bank's chief executive decision maker.

The geographical segment provides services and products in a certain economic environment that is subject to returns and risks that differ from other segments that operate in other economical environments.

3.2.2 Financial instruments

Financial assets and financial liabilities are recognized when the bank becomes a party to the contractual provisions of the instrument.

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 and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Notes to the Financial Statements
(All amounts are in US Dollars)

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognized immediately in the statement of income. Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVTOCI, if any, as described in note (11 and 49), which results in an accounting loss being recognized in the statement of income when an asset is newly originated.

1. Financial assets
All regular way purchases or sales of financial assets are recognized and derecognized on a 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.

a- Classification and reclassifications of financial assets
For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Financial assets are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

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

Debt instruments

Debt instruments are measured at amortized cost if both of the following conditions are met:

(1) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(2) The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value. Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost (AC)**: Assets that are held for collection of contractual cash flows where those cash flows represent Solely Payments of Principal and Interest ('SPPI'), and that are not recognized at fair value through profit or loss (FVTPL), are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note (49).

- **Fair value through other comprehensive income (FVTOCI):** financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent Solely Payments of Principal and Interest, and that are not recognized at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through other comprehensive Income, except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.
- **Fair value through profit or loss (FVTPL)**: Assets that do not meet the criteria for amortized cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented in the statement of income within "Net gains from financial assets" in the period in which it arises.

  Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

- **Business model**: the business model reflects how the bank manages the assets in order to generate cash flows. That is, whether the bank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

- **SPPI:** Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the bank assesses whether financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test').

Notes to the Financial Statements
(All amounts are in US Dollars)

In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.
Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are Solely Payment of Principal and Interest.
The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Equity instruments
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence is a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The bank subsequently measures all equity investments at fair value through profit or loss, except where the bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The bank's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.
Dividends, when representing a return on such investments, continue to be recognized in profit or loss as net gains from financial assets when the bank's right to receive payments is established.

Amortized cost and effective interest method
The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate.

When the bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in the statement of income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is suspended in accordance with Palestine Monetary Authority requirements.

Notes to the Financial Statements
(All amounts are in US Dollars)

b - Impairment of financial assets
The bank assesses on a forward-looking basis the expected credit loss ('ECL') associated with its direct credit facilities, debt instrument carried at amortized cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note (49) provides more detail of how the expected credit loss allowance is measured.

c- Modification of loans (restructured and rescheduled loans)
The bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the bank assesses whether or not the new terms are substantially different to the original terms. The bank does this by considering, among others, the following factors:
- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in the de-recognition, and the bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

De-recognition other than on a modification
Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the bank transfers substantially all the risks and rewards of ownership, or (ii) the bank neither transfers nor retains substantially all the risks and rewards of ownership and the bank has not retained control.

Notes to the Financial Statements
(All amounts are in US Dollars)

Bad debts
Credit facilities with provisions are written off in whole or in part, when the bank exhaust all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event, subsequent recoveries of written off debts are recognized in the statement of income.

2. Financial liabilities

Classification and subsequent measurement
Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customer deposits) are initially recognized at fair value and subsequently measured at amortized cost, except for:

- **Financial liabilities at fair value through profit or loss:** this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is, unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
  Financial liabilities arising from the transfer of financial assets which did not qualify for de-recognition, in such cases, financial liability is recognized for the consideration received for the transfer. In subsequent periods, the bank recognizes any expense incurred on the financial liability. Gains and losses arising from financial guarantee contracts and loan commitments held at fair value through profit or loss are recognized in the statement of income.

De-recognition of financial liabilities
Financial liabilities are de-recognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).
When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is "substantial" or whether the original debt has been replaced by another debt with "substantially" different terms.

3. Fair value measurement
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 in a principal market, or in its absence, the most advantageous market to which the Bank has access as at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Notes to the Financial Statements
(All amounts are in US Dollars)

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value levels are as follows:
- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3.2.3 Impairment

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 instrument, 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.

Notes to the Financial Statements
(All amounts are in US Dollars)

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 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.

Objective evidence of impairment could include:
- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- It is becoming probable that the borrower will enter bankruptcy or financial re-organization;
- 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.

Notes to the Financial Statements
(All amounts are in US Dollars)

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.

3.2.4 Financial guarantee contracts and loan commitments
Financial guarantees are contracts that require the bank to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.
Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

3.2.5 Foreign exchange gains and losses
The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- For financial assets that are classified as at FVTPL, the foreign exchange component is recognized in the statement of income;
- For financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in the statement of income;
- For financial assets that are non-monetary items and designated at FVTOCI, any foreign exchange component is recognized in the statement of comprehensive income; and
- For foreign currency-denominated debt instruments measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the financial assets and are recognized in the statement of income.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.6 Financial assets at fair value through the statement of income

They are the financial assets purchased by the Bank for selling purposes in the near future and achieving profits from fluctuations in short-term market prices or trading profits margin.

These assets are recognized at fair value upon purchase (acquisition expenses are recognised in the statement of income upon purchase) and subsequently revalued at fair value. Change in fair value is recognized in the statement of income. When these assets or part thereof is disposed, the resulting gains or losses are recognized in the statement of income.

The distributed dividends or realized interests are recognized in the statement of income.

No financial assets may be reclassified from/ to this item except in cases as determined by the International Financial Reporting Standards.

No financial assets with no prices in active market and transactions may be classified in this category.

Debt instruments within this portfolio are not usually subject to the measurement of ECL.

3.2.7 Financial assets at fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent Solely Payments of Principal and Interest, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through comprehensive income.
In the event of the sale of the asset or part thereof, the resulting gain or loss is taken to the statement of comprehensive income and within the statement of equity. The balance of the reserve for valuation of financial assets sold is transferred directly to retained earnings and losses rather than through the statement of income.
Equity instruments within this category are not subject to impairment testing.

The distributed dividends are recognized in the statement of income.

Debt instruments within this portfolio are subject to the calculation of impairment (ECL) as stated in the requirements of IFRS 9 application, the ECL provision is recognized in the statement of income.

3.2.8 Credit Facilities

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

Credit facilities are presented net of allowance for impairment of credit facilities and suspended interests.

Impairment Provision on direct credit facilities is recognized using the expected credit loss model as mentioned in Note 49.

According to PMA instructions, direct credit facilities defaulted for more than 6 years along with the related suspended interest and allowances are excluded from the Bank's financial statements.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.9 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated.

Depreciation is recognized using the straight-line method, over the estimated useful lives of the respective assets, according to the following:

	Useful life (years)
Buildings	2%
Furniture and Office Equipment	10%
Computer information system	20%
Leasehold improvements	10%
Vehicles	15%

The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis.

Property and equipment are de-recognized when disposed of or when there is no expected future benefits from their use or disposal. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of income.

3.2.10 Projects under construction

Capital Projects under construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the bank's accounting policy. Such projects are classified to the appropriate categories of property and equipment when completed and ready for its intended use. Depreciation of these assets commences when the assets are ready for their intended use.

3.2.11 Business combination

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 acquirer. Acquisition costs are recognized in the statement of income as incurred.

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

Notes to the Financial Statements
(All amounts are in US Dollars)

Goodwill is measured by determining the increase in the transferred consideration, the amount of any non-controlling interest in the acquiree 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 assumed at the date of acquisition. If, after revaluation, the net amount of the acquirer's identifiable assets and the assumed liabilities at the date of acquisition exceeds the total transferred consideration and the amounts of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), recognition of the increase directly in the statement of income 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.

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 re-measured 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 acquiree are re-measured to their fair value at the date of acquisition (i.e., 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 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 Bank 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.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.12 Derivative financial instruments

The bank deals with derivatives such as forward foreign exchange contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are signed and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in statement of incomeimmediately unless the derivative is designated as a hedging instrument, in which event the timing of gains and losses recognition in the statement of income depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

3.2.13 Provisions

Provisions including legal provisions are recognized when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.2.14 End of service indemnity provision

Provision for the Bank's obligations for employees' end of service is made according to the effective labour law in Palestine. Amounts that should be annually deducted are recorded in the account of income and compensations paid to employees who leave the service are recorded in the end of service indemnity provision account.

3.2.15 Income tax

Income tax comprises current tax and deferred taxes.

Current tax is based on taxable profits, which may differ from accounting profits disclosed in the statement of income. Accounting profits may include non-taxable profits or tax-deductible expenses which may be exempted in the current or subsequent financial years.

Taxes are calculated based on tax rates confirmed under the laws, regulations and instructions of the Palestinian Income tax department.

Deferred tax is the tax expected to be paid and/or recovered as a result of temporary timing differences between the value of assets or liabilities in the financial statements and the value based on which tax profit is calculated. Deferred taxes are calculated using the liability method in the statement of financial position. Deferred taxes are accounted for in accordance with the tax rates expected to be applied when the tax liability is settled or the deferred tax asset is realized.

The carrying amount of the deferred taxes are reviewed at the date of the financial statements and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets be utilized.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.16 Offsetting
Financial assets and liabilities are offset and net amounts are reported in the statement of financial position, only when legally enforceable rights to set off the recognized amounts are established and when such amounts are settled on a net basis, and when assets and liabilities are settled simultaneously.

3.2.17 Sale and repurchase agreements (loans at fair value)
Loans purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the bank, are recorded as loans at fair value in the statement of financial position to the extent it does exceed the fixed repurchase price specified in the repo agreement.
collateral (underlying assets) included as part of the loan repo agreement with a corresponding commitment to resell at a specified future date are not recognized in the Bank's financial statements as assets since the bank is not able to control these assets until such restriction on use is discharged (repurchase option was not exercised).

The bank asses the terms and conditions in these agreements to determine the proper classification and measurement of these agreements in accordance with IFRS 9.

The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Further information about the banks loans granted at fair value as part of a repurchase agreement is stated in note (9).

3.2.18 Revenue and expense recognition

a- Interest income and expense

Interest income and expense for all interest-bearing financial instruments are calculated by applying the effective interest method to the gross carrying value of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is suspended as per the Palestine Monetary authority instructions.

b- Fee and commission income and expenses

The bank earns fee and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management services. Loan commitment fees and other credit-related fees are deferred (together with any incremental costs) as and amortized over the loan period using the effective interest rate method.

Notes to the Financial Statements
(All amounts are in US Dollars)

c- Dividend income

Dividend income from investments is recognized in the statement of income when the Bank's right to receive dividends has been established (provided that it is probable that the economic benefits will flow to the bank and the amount of income can be measured reliably).

3.2.19 Assets seized in settlement of debts
In certain cases, the Bank may close out transactions by acquiring assets in settlement of debts. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment losses) at the date of exchange.

Any impairment is recorded as a loss in the statement of income. A subsequent increase in fair value is recorded in the statement of income only to the extent that it does not exceed the previously recorded impairment loss, if any.

In accordance with PMA instructions, land and assets reverted to the Bank against settlement of due debts should be disposed of during a maximum period of 5 years from the acquisition date. The period where such assets can be kept was extended by PMA according to the banking law and related instructions.

3.2.20 Intangible assets
Intangible assets that are acquired through acquisitions are stated at fair value at the date of acquisition.

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

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

Intangible assets are amortized using the straight line method and include software, computer systems and core deposits intangibles.
The accounting policy for each intangible asset is as follows:

1. Core deposits intangibles: amortized on a straight-line basis at 17% .
2. Software, computer systems: amortized on a straight-line basis at 20%

3.2.21 Foreign currencies

- Transactions dominated in foreign currencies occurring during the year are recorded at the prevailing exchange rates at the date of the transactions.
- Balances of monetary assets and liabilities dominated in foreign currencies are translated at the prevailing exchange rate at the reporting date.
- Non-monetary assets and liabilities measured at fair value and dominated in a foreign currency are translated at the date when the fair value was determined.
- Foreign currency exchange gains or losses are recognized in the statement of income.
- Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in the statement of income in the period in which they arise.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.22 Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

3.2.23 Impairment of non-financial assets

At the end of each reporting period, the bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the statement of income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

3.2.24 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and cash balances at banks and financial institutions that mature within three months, less banks and financial institutions' deposits that mature within three months from acquisition date.

3.2.25 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.
All other borrowing costs are recognized in the statement of income in the period in which they are incurred.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.26 Investment in associate

Associates are entities over which the bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

After application of the equity method, the bank determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the bank determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

The carrying amount of associates includes goodwill identified on acquisition less accumulated credit losses, if any. Dividends received from associates, if any, reduce the carrying value of the investment in associates. Other post-acquisition changes in bank's share of net assets of an associate are recognized as follows:

(i) the bank's share of profits or losses of associates is recorded in the statement of income for the year as share of result of associates, (ii) the bank's share of other comprehensive income is recognized in other comprehensive income and presented separately, if any, (iii) all other changes in the bank's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the bank's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the bank and its associates are eliminated to the extent of the bank's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.2.27 Revenue from Contracts with Customers

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. Specifically, the standard introduces a 5 step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The bank performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transitional impact to retained earnings. The impact of IFRS 15 was limited to the new disclosure requirements.

Notes to the Financial Statements
(All amounts are in US Dollars)

3.2.28 Leases

The bank leases various offices, branches. Rental contracts are typically made for fixed periods of 1-3 years extended as mentioned in the extension and termination option below.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the bank uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, where needed.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The bank might be exposed to potential future increases in lease payments, which are not included in the lease liability until they take effect. When adjustments to lease payments take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment's and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

Extension and termination options
Extension and termination options are included in a number of office and branch leases across the bank. These are used to maximise operational flexibility in terms of managing the assets used in the bank's operations. The majority of extension and termination options held are exercisable only by the bank and not by the respective lessor.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (4) CRITICAL ACCOUNTING JUDGEMENTS 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 seized assets

Impairment in value of seized assets is recognized based on recent and approved real estate evaluation conducted by appraisers/ valuers approved for impairment calculation purposes by the regulator in Palestine.

Seized assets of the bank are impaired against their current fair values, if any, based on reports prepared by the appraisers.

The fair value of the assets is estimated based on the transactions made of similar assets in the market. The principal assumptions and judgement underlying the estimation of the fair value are those relating to the assumptions made to determine similar transaction in the market with similar characteristics of the asset being valued. These valuations are regularly compared to actual market yield data and actual transactions by the bank and those reported by the market.

Useful lives of tangible and intangible assets

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.

If expected useful life is different from the previous one, the difference is adjusted prospectively as a change in accounting estimate.

Income tax provision

Management records the annual taxes expenses according to the local laws and regulations and the accounting standards. Management calculates and recognize deferred tax asset which represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management prior experience, judgement and assumptions that are believed to be reasonable under the circumstances, the effective tax rate and items of temporary differences are part of management judgment in this area.

Notes to the Financial Statements
(All amounts are in US Dollars)

Legal provision

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. 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.

Lease terms

When determining the lease terms, management takes into consideration all facts and circumstances that creates an incentive for the extension option, or the option to not terminate. The extension options (or the periods following the termination options) are included in the lease terms only if it is reasonable that the lease will be extended (or terminated). The assessment is reviewed in case of a major event or material change in the circumstances impacting this assessment that is under the control of the lessee.

Lease payments discounting

The lease payments are discounted by using the Incremental Borrowing Rate (IBR) of the Bank. Management has applied judgements and estimates to determine the IBR at the lease inception.

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.

The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Descriptive details of the provision for credit losses and its components applied by the bank is disclosed in note 49.

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 is done on a portfolio basis and 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 de-recognition and whether the reasons are consistent with the objective of the business being retained.

Notes to the Financial Statements
(All amounts are in US Dollars)

Fair value of intangible assets acquired

When the consideration paid by the bank for the acquiree's business is higher than the fair values of the identifiable assets acquired, and liabilities and contingent liabilities assumed, recognition of an intangible asset (core deposits intangibles).

The fair values of assets and liabilities acquired are based on discounted cash flow models which requires judgment relating to the discount factor and growth rate among others. The valuation of identifiable intangible assets was performed by an independent professional appraiser. Based on the appraisal report, the purchase price allocation included a core deposits intangible as disclosed in note 15.

Impairment of non-financial assets

On each reporting date, the Bank asses the existence of any indicators of impairment of non-financial assets. When such indicators are observed, the bank estimates the recoverable amount. The recoverable amount of these assets represents the fair value of the original / cash generation unit less selling costs or the value in use, whichever is higher, this assessment is calculated for each individual asset.

In the event that the book value exceeds the recoverable amount, the value of those assets for each cash-generating unit will be reduced to the recoverable value. In order to calculate the value in use, the expected cash flows of these assets are discounted to their present value using a pre-tax discount rate which reflects the current market estimates of the time value of money and the risks associated with those assets.

When calculating the fair value less selling expenses. Similar market transactions are considered, if any, and in the absence of such operations, other appropriate valuation methods are used. Losses of impairment is recorded in the statement of income.

Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the bank's financial assets are appropriately classified and measured.

Notes to the Financial Statements
(All amounts are in US Dollars)

Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

- **Significant increase in credit risk**

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its historical experience, internal credit risk grading system, external risk ratings, and forecast information to assess deterioration in credit quality of a financial asset.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

- **Importance of staging criteria**

Staging is an important input in determining the IFRS 9 ECL, as it dictates loans would be classified as stage 1 (attracting 12 months ECL) and in stage 2 (attracting life time ECL). Staging under IFRS 9 is based on the assessment of relative movement in the credit quality of the loans from the time of initial recognition. Loans classified in stage 3 have objective evidence of impairment and in respect of which specific provisions have been established.

- **Credit-impaired Financial assets**

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred:

- Known cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- Decline in the realizable value of the security;
- The probability that the borrower will enter bankruptcy or other financial realization; and
- A significant downgrading in credit rating by an external credit rating agency.

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of 3 payments as determined by the regulatory guidelines.

- **Measurement of ECL**

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the 12 months and expected life of the financial asset discounted at its original effective interest rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)

Notes to the Financial Statements
(All amounts are in US Dollars)

These parameters are generally derived from internally developed statistical models, other historical data and forward looking information.

The Bank considers its historical loss experience and adjusts this for current observable data. In addition, the Bank uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss.

IFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, real annual growth in gross domestic product and oil prices and unemployment rate and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

- **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.

NOTE (5) CASH AND BALANCES AT PALESTINE MONETARY AUTHORITY

Item details

	2019	2018
Cash on hand	118,322,063	140,177,924
Balances at Palestine Monetary Authority:		
Statutory cash reserves requirements (*)	87,894,404	83,670,942
Cash and balances at PMA	36,240,038	28,297,940
	242,456,505	252,146,806

There are no due balances during the period exceeding three months as at 31 December 2019 and 31 December 2018.

There are no restricted balances except for the statutory reserves as 31 December 2019 and 31 December 2018.

(*) 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.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (6) BALANCES AT BANKS AND FINANCIAL INSTITUTIONS

Item details

	2019	2018
Local banks and financial institutions:		
Deposits matures within 3 months:	38,085,423	60,143,436
	38,085,423	60,143,436
Foreign banks and financial institutions:		
Current and demand accounts	80,822,086	56,731,702
Deposits maturing within 3 months:	72,844,311	36,977,462
Deposits maturing after 3 months	-	7,052,186
	153,666,397	100,761,350
Total	191,751,820	160,904,786
Provision for expected credit losses	(122,683)	(101,500)
Net	191,629,137	160,803,286

The non-interest-bearing balances at banks and financial institutions amounted to USD 80,022,086 as at December 31, 2019 and USD 43,591,226 as at December 31, 2018.

The restricted balances amounted to USD 688,215 as at December 31, 2019 and USD 532,007 as at December 31, 2018.

The movement on the balances with banks and financial institutions:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	160,904,786	-	-	160,904,786
New balances during the year	68,596,617	-	-	68,596,617
Balances repaid	(37,749,583)	-	-	(37,749,583)
Balance end of the year	**191,751,820**	-	-	**191,751,820**

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	71,970,257	-	-	71,970,257
New balances during the year	107,716,902	-	-	107,716,902
Balances repaid	(18,782,373)	-	-	(18,782,373)
Balance end of the year	**160,904,786**	-	-	**160,904,786**

Movements of provision for expected credit losses on the balances with banks and financial institutions:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	101,500	-	-	101,500	76,548
Impairment loss on new balances and deposits during the year	56,977	-	-	56,977	38,877
Recoveries from impairment loss on repaid balances and deposits	(35,794)	-	-	(35,794)	(13,925)
Balance, end of the year	**122,683**	-	-	**122,683**	**101,500**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (7) 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 86,340 and USD 90,506 as of December 31, 2019 and 2018, respectively.

NOTE (8) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The bank is holding the below equity investments at FVOCI designation because these investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

Details:

	2019	2018
Quoted shares in financial markets	7,386,919	4,861,144
Unquoted shares	802,336	802,336
	8,189,255	**5,663,480**

The movement of fair value reserve is as follows:

	2019	2018
Balance, beginning of the year	(2,603,012)	(2,782,374)
Change in fair value reserve	(464,864)	(94,482)
Gains from sale of financial assets	-	273,844
Balance, end of the year	**(3,067,876)**	**(2,603,012)**

Geographical distribution of financial assets at fair value through other comprehensive income is as follows:

	Palestine	Jordan	Gulf	Total
2019				
Quoted shares in financial markets	2,299,654	3,587,211	1,500,054	7,386,919
Unquoted shares	802,336	-	-	802,336
Balance end of the year	**3,101,990**	**3,587,211**	**1,500,054**	**8,189,255**
2018				
Quoted shares in financial markets	2,374,330	1,125,529	1,361,285	4,861,144
Unquoted share	802,336	-	-	802,336
Balance end of the year	**3,176,666**	**1,125,529**	**1,361,285**	**5,663,480**

Details of dividends income from financial assets at fair value through other comprehensive income is as follows:

	2019		2018	
	Fair value	Dividend income	Fair value	Dividend income
Investments in local markets	2,299,654	28,100	2,374,330	84,584
Investments in Jordanian markets	3,587,211	160,790	1,125,529	-
Investments in Gulf markets	1,500,054	95,295	1,361,285	-
Unquoted shares	802,336	65,218	802,336	-
	8,189,255	**349,403**	**5,663,480**	**84,584**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (9) LOAN AT FAIR VALUE

The bank signed a share sale agreement with the repurchase option on August 18, 2019, during which 3 million shares were purchased in Investment Bank Public Shareholding Company registered in Jordan under No. (173) at a price of 1.2 dinars per share, for a total of 3.6 million Jordanian dinars (equivalent to USD 5,077,573).

The sale agreement states that the seller has the right to buy back the shares at the aforementioned selling price (1.2) from Al-Quds Bank within a period of three years from the date of signing the agreement during which Al-Quds Bank is not entitled to dispose of these shares unless the seller fails to implement certain conditions.

The above financial transaction did not result in the transfer of ownership and the risks inherent to the buyer due to the existence of the condition of re-purchase option at the selling price (fixed price), and accordingly the bank did not recognize the shares purchased in the statement of financial position but rather the amount paid as a loan at fair value at a fixed interest rate.

The loan recognized is backed by Investment Bank shares mentioned above, the total shares value as at December 31, 2019 amounts to USD 5,458,392.

NOTE (10) DIRECT CREDIT FACILITIES - NET

Details:

	2019	2018
Loans	710,934,624	633,710,432
Overdrafts and overdrawn	94,533,770	74,056,839
Discounted bills	15,962,641	11,159,851
	821,431,035	**718,927,122**
Less:		
Suspended interest and commissions	(1,929,761)	(773,872)
Provision for impairment of direct credit facilities	(28,989,419)	(20,349,745)
Net	**790,511,855**	**697,803,505**

Loans and overdrafts balance is net of interest and commissions received in advance amounting to 1,860,713 as at 31 December 2019 against USD 2,266,493 as at 31 December 2018.

Credit facilities classified net of suspended interest amounted to USD 43,222,535 or 5.26% of gross direct credit facilities as at December 31, 2019 compared to USD 45,017,990 or 6.26% at December 31, 2018.

Non-performing loans after deducting the suspended interest as of December 31, 2019 amounted to USD 35,433,851 compared to USD 25,076,586 as at December 31, 2018.

Credit facilities that have been in default for more than 6 years amounted to USD 9,085,149 as at December 31, 2019 and USD 8,339,131 as at December 31, 2018.

The total loans and overdraft granted to the Palestine National Authority and its ministries amounted to USD 53,148,287 as at December 31, 2019, representing 6.47% of gross direct credit facilities, compared to USD 25,225,150 representing 3.51% of gross direct credit facilities as at December 31, 2018.

The fair value of collaterals against credit facilities amounted to USD 480,238,283as at December 31, 2019 compared to USD 411,503,711 as at December 31, 2018.

Notes to the Financial Statements
(All amounts are in US Dollars)

Credit facilities granted to public sector employees amounted to USD 180,802,461 as of December 31, 2019 representing 22.01% of the total facilities granted and USD 191,090,791 as at December 31, 2018, representing 26.58% of the total facilities granted.

Credit facilities granted to non-residents amounted to USD 10,166,233 as at December 31, 2019 and USD 13,116,581 as at December 31, 2018.

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

	2019	2018
Balance, beginning of year	**773,872**	**368,380**
Suspended interest during the year	1,329,917	480,566
Suspended interest transferred to revenues	(116,665)	(75,074)
Transfers from the suspended interest of direct credit facilities have been defaulted for more than 6 years	(57,363)	-
Balance, end of year	**1,929,761**	**773,872**

The movement on the provision for impairment of direct credit facilities during the year

	2019	2018
Balance at the beginning of the year	**20,349,745**	**4,645,843**
Effect of application of IFRS 9 regarding Impairment	-	10,664,808
Additions during the year	10,338,551	10,977,417
Recoveries	(3,572,434)	(2,480,809)
Transfers from the provision of direct credit facilities have been defaulted- more than 6 years	(598,414)	(6,556)
Net additions (recoveries) in direct credit facilities provision for stage 1 and stage 2	2,087,088	(3,428,289)
Bad debt	-	(2,447)
Currency variance	384,883	(20,222)
Balance at the end of the year	**28,989,419**	**20,349,745**

The net provision for credit impairment shown in the income statement is as follows:

	2019	2018
Additional provision for direct credit facilities for stage 3	10,338,551	10,977,417
Recoveries for direct credit facilities for stage 3	(3,572,434)	(2,480,809)
Net additions (recoveries) in direct facilities provision for stage 1 and stage 2	2,087,088	(3,428,289)
Net changes in balances at banks and financial institutions provision	21,183	24,950
Net additions (recoveries) in financial assets at amortized cost	(45,982)	50,506
Net changes in indirect credit facilities provision	88,323	4,577
Recoveries from the provision of facilities have been defaulted- more than 6 years	(393,832)	(406,711)
	8,522,897	**4,741,641**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement on the provision for the provision of direct facilities have been defaulted more than 6 years:

	2019	2018
Balance at the beginning of the year	**8,339,131**	**8,833,393**
Transfers from the provision of direct credit facilities have been defaulted- more than 6 years	598,414	6,556
Bad debt	-	(9,823)
Recoveries during the year	(393,832)	(406,711)
Currency variance	541,436	(84,284)
Balance at the end of the year	**9,085,149**	**8,339,131**

The distribution of the classes of direct credit facilities for the period ended December 31, 2019 and 2018:

	2019	2018
Retail	242,593,502	252,848,244
Real estate loans	32,859,167	30,423,472
Corporate	275,459,433	199,806,974
SMEs	217,370,646	210,623,282
Government and the public sector	53,148,287	25,225,150
	821,431,035	**718,927,122**
Less:		
Suspended interest and commission	(1,929,761)	(773,872)
Provision for impairment of direct credit facilities	(28,989,419)	(20,349,745)
	790,511,855	**697,803,505**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement of the direct credit facilities exposure - **for retail** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	171,251,775	69,692,727	11,903,742	252,848,244
Additions during the year	31,983,316	-	-	31,983,316
Paid during the year	(26,219,944)	(4,042,282)	(7,898,490)	(38,160,716)
Transferred to stage 1	27,176,708	(25,914,511)	(1,262,197)	-
Transferred to stage 2	(25,687,880)	26,324,876	(636,996)	-
Transferred to stage 3	(9,489,565)	(8,008,101)	17,497,666	-
Net Changes due to modifications and adjustments	1,261,141	(1,062,439)	(4,092,156)	(3,893,454)
Write off- more than 6 years	-	-	(183,888)	(183,888)
Balance, end of the year	**170,275,551**	**56,990,270**	**15,327,681**	**242,593,502**

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	171,067,202	87,631,956	8,343,934	267,043,092
Additions during the year	27,918,577	-	-	27,918,577
Paid during the year	(39,283,050)	(5,645,720)	(1,029,452)	(45,958,222)
Transferred to stage 1	25,757,096	(24,491,980)	(1,265,116)	-
Transferred to stage 2	(15,294,453)	15,768,680	(474,227)	-
Transferred to stage 3	(103,730)	(5,324,920)	5,428,650	-
Net Changes due to modifications and adjustments	1,190,133	1,754,711	909,776	3,854,620
Write off- more than 6 years	-	-	(9,823)	(9,823)
Balance, end of the year	**171,251,775**	**69,692,727**	**11,903,742**	**252,848,244**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement of direct credit facilities provision for impairment - **for retail** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	654,813	2,635,554	7,509,777	10,800,144	7,853,163
Additions during the year	43,483	1,097,923	5,060,160	6,201,566	5,772,564
Paid during the year	(222,554)	(129,297)	(1,744,206)	(2,096,057)	(4,517,466)
Transferred to stage 1	991,036	(991,036)	-	-	-
Transferred to stage 2	(85,142)	85,142	-	-	-
Transferred to stage 3	(10,757)	(237,271)	248,028	-	-
Net Changes due to modifications and adjustments	(918,115)	1,707,263	(252,050)	537,098	1,705,026
Currency variance	-	-	(359,763)	(359,763)	(6,587)
Write off- more than 6 years	-	-	(119,527)	(119,527)	(6,556)
Balance, end of the year	**452,764**	**4,168,278**	**10,342,419**	**14,963,461**	**10,800,144**

The movement of total direct credit facilities at amortized cost - **for real estate loans** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	26,994,482	3,169,233	259,757	30,423,472
Additions during the year	7,107,873	-	-	7,107,873
Paid during the year	(3,268,104)	(886,421)	(381,253)	(4,535,778)
Transferred to stage 1	1,388,817	(1,205,278)	(183,539)	-
Transferred to stage 2	(4,445,327)	4,445,327	-	-
Transferred to stage 3	(542,843)	(44,913)	587,756	-
Net Changes due to modifications and adjustments	(37,792)	(98,608)	-	(136,400)
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**27,197,106**	**5,379,340**	**282,721**	**32,859,167**

Notes to the Financial Statements
(All amounts are in US Dollars)

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	24,051,218	2,752,141	125,322	26,928,681
Additions during the year	6,149,124	-	-	6,149,124
Paid during the year	(2,746,640)	(227,706)	(209,654)	(3,184,000)
Transferred to stage 1	1,756,391	(1,708,288)	(48,103)	-
Transferred to stage 2	(2,520,981)	2,520,981	-	-
Transferred to stage 3	-	(382,056)	382,056	-
Net Changes due to modifications and adjustments	305,370	214,161	10,136	529,667
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**26,994,482**	**3,169,233**	**259,757**	**30,423,472**

The movement of direct credit facilities provision for impairment - **for real estate loans** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	9,516	340,193	202,648	552,357	226,231
Additions during the year	20,741	102,055	89,738	212,534	369,269
Paid during the year	(1,220)	(170,213)	(164,732)	(336,165)	(235,979)
Transferred to stage 1	143,919	(143,919)	-	-	-
Transferred to stage 2	(1,513)	1,513	-	-	-
Transferred to stage 3	-	(8,890)	8,890	-	-
Net Changes due to modifications and adjustments	(142,469)	82,851	(4,873)	(64,491)	192,836
Write off- more than 6 years	-	-	-	-	-
Balance, end of the year	**28,974**	**203,590**	**131,671**	**364,235**	**552,357**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement with total direct credit facilities at amortized cost - for **Corporate** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	193,916,092	3,196,933	2,693,949	199,806,974
Additions during the year	88,579,622	-	-	88,579,622
Paid during the year	(10,846,356)	-	(539,372)	(11,385,728)
Transferred to stage 1	3,194,531	(3,194,531)	-	-
Transferred to stage 2	(204,000)	204,000	-	-
Transferred to stage 3	-	-	-	-
Net Changes due to modifications and adjustments	(1,778,719)	-	237,284	(1,541,435)
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**272,861,170**	**206,402**	**2,391,861**	**275,459,433**

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	147,272,176	14,423,492	2,077,051	163,772,719
Additions during the year	55,732,210	-	-	55,732,210
Paid during the year	(19,658,024)	(268,657)	(376,874)	(20,303,555)
Transferred to stage 1	10,243,909	(10,243,909)	-	-
Transferred to stage 2	(15,114)	15,331	(217)	-
Transferred to stage 3	(3,203)	(842,076)	845,279	-
Net Changes due to modifications and adjustments	344,138	112,752	148,710	605,600
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**193,916,092**	**3,196,933**	**2,693,949**	**199,806,974**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement of the direct credit facilities provision - **for corporate** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	778,756	203,408	315,877	1,298,041	393,633
Additions during the year	997,461	13	1,068,707	2,066,181	696,222
Paid during the year	(472,396)	(9,928)	(468,387)	(950,711)	(1,803,190)
Transferred to stage 1	203,408	(203,408)	-	-	-
Transferred to stage 2	(13,104)	13,104	-	-	-
Transferred to stage 3	-	-	-	-	-
Net Changes due to modifications and adjustments	-	-	-	-	2,011,376
Write off- more than 6 years	-	-	-	-	-
Balance, end of the year	**1,494,125**	**3,189**	**916,197**	**2,413,511**	**1,298,041**

The movement with total direct credit facilities at amortized cost - **for SMEs** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	184,827,169	16,120,196	9,675,917	210,623,282
Additions during the year	55,125,799	-	-	55,125,799
Paid during the year	(41,964,601)	(1,075,700)	(6,250,449)	(49,290,750)
Transferred to stage 1	7,382,329	(6,452,504)	(929,825)	-
Transferred to stage 2	(12,260,464)	12,260,464	-	-
Transferred to stage 3	(9,502,331)	(5,361,932)	14,864,263	-
Net Changes due to modifications and adjustments	(1,674,068)	395,656	2,722,824	1,444,412
Write off- more than 6 years	-	-	(532,097)	(532,097)
Balance, end of the year	**181,933,833**	**15,886,180**	**19,550,633**	**217,370,646**

Notes to the Financial Statements
(All amounts are in US Dollars)

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	146,913,013	23,266,253	2,593,458	172,772,724
Additions during the year	65,466,871	-	-	65,466,871
Paid during the year	(26,411,463)	(1,160,881)	(1,013,937)	(28,586,281)
Transferred to stage 1	12,043,480	(11,631,594)	(411,886)	-
Transferred to stage 2	(10,606,708)	10,867,730	(261,022)	-
Transferred to stage 3	(2,578,024)	(6,035,031)	8,613,055	-
Net Changes due to modifications and adjustments	-	813,719	156,249	969,968
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**184,827,169**	**16,120,196**	**9,675,917**	**210,623,282**

The movement of direct credit facilities provision for impairment for **SMEs** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	800,669	1,788,385	5,084,924	7,673,978	2,046,436
Additions during the year	1,276,131	385,604	4,119,946	5,781,681	5,867,624
Paid during the year	(388,964)	(177,537)	(1,195,109)	(1,761,610)	(693,811)
Transferred to stage 1	672,155	(672,155)	-	-	-
Transferred to stage 2	(119,426)	119,426	-	-	-
Transferred to stage 3	(3,729)	(839,462)	843,191	-	-
Net Changes due to modifications and adjustments	(539,330)	569,358	(843,186)	(813,158)	467,364
Currency variance	-	-	744,646	744,646	(13,635)
Write off- more than 6 years	-	-	(478,887)	(478,887)	-
Balance, end of the year	**1,697,506**	**1,173,619**	**8,275,525**	**11,146,650**	**7,673,978**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement of the direct credit facilities exposure - **for government** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	25,225,150	-	-	25,225,150
Additions during the year	51,551,101	-	-	51,551,101
Paid during the year	(23,627,964)	-	-	(23,627,964)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Net Changes due to modifications and adjustments	-	-	-	-
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**53,148,287**	**-**	**-**	**53,148,287**

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	33,014,970	-	-	33,014,970
Additions during the year	25,225,150	-	-	25,225,150
Paid during the year	(33,014,970)	-	-	(33,014,970)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Net Changes due to modifications and adjustments	-	-	-	-
Write off- more than 6 years	-	-	-	-
Balance, end of the year	**25,225,150**	**-**	**-**	**25,225,150**

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement of direct credit facilities provision - **for government** as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	25,225	-	-	25,225	46,521
Additions during the year	111,325	-	-	111,325	68,963
Paid during the year	(34,988)	-	-	(34,988)	(90,259)
Transferred to stage 1	-	-	-	-	-
Transferred to stage 2	-	-	-	-	-
Transferred to stage 3	-	-	-	-	-
Net Changes due to modifications and adjustments	-	-	-	-	-
Write off- more than 6 years	-	-	-	-	-
Balance, end of the year	**101,562**	**-**	**-**	**101,562**	**25,225**

The movement of the direct credit facilities exposure on a collective basis as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	602,214,668	92,179,089	24,533,365	718,927,122
Additions during the year	234,347,711	-	-	234,347,711
Paid during the year	(105,926,969)	(6,004,403)	(15,069,564)	(127,000,936)
Transferred to stage 1	39,142,385	(36,766,824)	(2,375,561)	-
Transferred to stage 2	(42,597,671)	43,234,667	(636,996)	-
Transferred to stage 3	(19,534,739)	(13,414,946)	32,949,685	-
Net Changes due to modifications and adjustments	(2,229,438)	(765,391)	(1,132,048)	(4,126,877)
Write off- more than 6 years	-	-	(715,985)	(715,985)
Balance, end of the year	**705,415,947**	**78,462,192**	**37,552,896**	**821,431,035**

Notes to the Financial Statements
(All amounts are in US Dollars)

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	522,318,579	128,073,842	13,139,765	663,532,186
Additions during the year	180,491,932	-	-	180,491,932
Paid during the year	(121,114,147)	(7,302,964)	(2,629,917)	(131,047,028)
Transferred to stage 1	49,800,876	(48,075,771)	(1,725,105)	-
Transferred to stage 2	(28,437,256)	29,172,722	(735,466)	-
Transferred to stage 3	(2,684,957)	(12,584,083)	15,269,040	-
Net Changes due to modifications and adjustments	1,839,641	2,895,343	1,224,871	5,959,855
Write off- more than 6 years	-	-	(9,823)	(9,823)
Balance, end of the year	**602,214,668**	**92,179,089**	**24,533,365**	**718,927,122**

The movement of direct credit facilities provision for impairment on a collective basis as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	2,268,979	4,967,540	13,113,226	20,349,745	10,565,984
Additions during the year	2,449,141	1,585,595	10,338,551	14,373,287	12,774,642
Paid during the year	(1,120,122)	(486,975)	(3,572,434)	(5,179,531)	(7,340,705)
Transferred to stage 1	2,010,518	(2,010,518)	-	-	-
Transferred to stage 2	(219,185)	219,185	-	-	-
Transferred to stage 3	(14,486)	(1,085,623)	1,100,109	-	-
Net Changes due to modifications and adjustments	(1,599,914)	2,359,472	(1,100,109)	(340,551)	4,376,602
Currency variance	-	-	384,883	384,883	(20,222)
Write off- more than 6 years	-	-	(598,414)	(598,414)	(6,556)
Balance, end of the year	**3,774,931**	**5,548,676**	**19,665,812**	**28,989,419**	**20,349,745**

- Changes resulting from the above modifications include changes resulting from reclassification between stages.
- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and

Notes to the Financial Statements
(All amounts are in US Dollars)

Distribution of credit facilities net of suspended interest based on the economic sectors:

	2019	2018
Public sector		
Palestine National Authority	53,148,287	25,225,150
Total public sector	**53,148,287**	**25,225,150**
Private sector		
Real estate and constructions		
Constructions	69,138,436	40,248,136
Accommodation and improving housing conditions	49,501,966	47,338,235
Real estate, business and investment	40,625,589	9,587,498
Total	**159,265,991**	**97,173,869**
Lands		
Investment	**14,538,579**	**8,280,132**
Industry and mineral sector		
Industry	**64,379,559**	**62,983,580**
General trading sector		
Internal trade	**164,668,425**	**168,715,270**
Agriculture and livestock		
Agriculture	2,851,944	9,254,784
Livestock	33,733,956	33,744,443
Total	**36,585,900**	**42,999,227**
Tourism, other restaurants and hotels sector	**10,858,318**	**12,426,236**
Transport	**3,054,719**	**6,159,038**
Services sector		
Financial services (*)	**52,467,150**	**23,255,258**
Public services sector		
Communications	6,322,233	4,589,654
Health	5,129,457	700,048
Education	5,726,962	5,691,548
Public utilities	3,223,947	3,813,228
Professionals	42,587,938	34,248,150
Total	**62,990,537**	**49,042,628**
Car financing	**14,248,103**	**14,890,079**
Financing consumer goods		
Credit cards	5,373,246	10,360,571
Others	177,304,570	190,777,173
Others in the private sector	5,695,463	5,865,039
Total	**188,373,279**	**207,002,783**
Total public and private sector facilities	**824,578,847**	**718,153,250**

(*) This item includes loans at fair value in the amount of USD 5,077,573.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (11) FINANCIAL ASSETS AT AMORTIZED COST

Details:

	Government Bonds	Corporate Bonds	Other Bonds	Total
31-Dec-19				
Bonds investments at local markets	-	10,770,000	-	10,770,000
Bonds investments at International markets	-	-	7,231,311	7,231,311
Total	**-**	**10,770,000**	**7,231,311**	**18,001,311**
Provision for impairment	-	-	-	(35,951)
Net	**-**	**10,770,000**	**7,231,311**	**17,965,360**

	Government Bonds	Corporate Bonds	Other Bonds	Total
31-Dec-18				
Bonds investments at local markets	-	10,770,000	-	10,770,000
Bonds investments at International markets	1,407,835	-	6,357,110	7,764,945
Total	**1,407,835**	**10,770,000**	**6,357,110**	**18,534,945**
Provision for impairment	-	-	-	(81,933)
Net	**1,407,835**	**10,770,000**	**6,357,110**	**18,453,012**

Geographical distribution of financial assets at amortized costs is as follows:

	Palestine	Jordan	Gulf	Total
2019				
Bonds	10,770,000	6,231,311	1,000,000	18,001,311
Balance, end of the year	**10,770,000**	**6,231,311**	**1,000,000**	**18,001,311**
2018				
Bonds	10,770,000	7,764,945	-	18,534,945
Balance, end of the year	**10,770,000**	**7,764,945**	**-**	**18,534,945**

No transfers between the stages (first, second and third) or bad debt accounts during the year ended December 31, 2019.

The bank has not changed its business model of holding debt instruments in financial assets at amortized cost, no reclassifications were done during the year 2019.

Notes to the Financial Statements
(All amounts are in US Dollars)

The movement of the financial assets at amortized cost exposure as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	18,534,945	-	-	18,534,945
Additions during the year	7,231,311	-	-	7,231,311
Exposures paid during the year	(7,764,945)	-	-	(7,764,945)
Balance, end of the year	**18,001,311**	**-**	**-**	**18,001,311**

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	9,409,145	-	-	9,409,145
Additions during the year	10,533,635	-	-	10,533,635
Exposures paid during the year	(1,407,835)	-	-	(1,407,835)
Balance, end of the year	**18,534,945**	**-**	**-**	**18,534,945**

The movement of financial assets at amortized cost impairment provision as at December 31, 2019 and 2018 as follows:

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance, beginning of the year	81,933	-	-	81,933	31,427
Impairment loss of direct credit facilities during the period	45,982	-	-	45,982	57,256
Recoveries	(91,964)	-	-	(91,964)	(6,750)
Balance, end of the year	**35,951**	**-**	**-**	**35,951**	**81,933**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (12) INVESTMENT IN ASSOCIATE

Details:

	Country	Ownership ratio	Sector	2019	2018
Experts Turnkey Solutions (*)	Palestine	35%	Information Technology	1,510,311	1,433,126
Total				**1,510,311**	**1,433,126**

(*) Experts Turnkey 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 Turnkey 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 table below summarizes the movement in the carrying amount of the Bank's investment in associate.

	2019	2018
Carrying amount at the beginning of the year	1,433,126	-
Fair value of net assets of associate acquired	-	877,284
Goodwill arising on acquisition of associate	-	692,079
Share of profit of associates	77,185	(136,237)
Carrying amount at the end of the year	**1,510,311**	**1,433,126**

The following table summarizes the most important financial information related to the affiliate company as of December 31, 2019

	2019	2018
Revenues	3,026,324	2,686,213
Profit (loss) from continuing operations	220,528	(389,248)
Net other comprehensive income for the year	-	-
Total comprehensive income for the year	220,528	(389,248)
Non-current assets	3,728,920	3,354,134
Current assets	1,538,694	1,208,963
Non-current liabilities	1,537,553	1,236,706
Current liabilities	1,392,256	1,209,114
Net owners' equity	2,337,805	2,117,277
Bank ownership percentage	35%	%35
The bank's share of the book value	818,232	741,047
The difference between the purchase price and the book value (goodwill)	692,079	692,079
Total	1,510,311	1,433,126
The bank's share of the results of its allied business:		
The bank's share of the profits of the affiliate company	77,185	(136,237)
The bank's share of the comprehensive income	-	-

Notes to the Financial Statements

(All amounts are in US Dollars)

NOTE (13) OTHER ASSETS

Details:

	2019	2018
Claims under collections	6,705,998	24,343,526
Interest receivable	4,489,174	3,685,186
Assets seized as settlement of debts (*)	803,141	803,141
Assets held for sale	-	318,350
Prepaid expenses	1,654,788	2,095,109
Payments to investment account	1,524,354	1,446,911
Refundable legal fees	449,169	390,971
Stationery and publications inventory	199,587	203,256
Other	1,956,039	3,558,493
	17,782,250	**36,844,943**

(*) According to the Palestine Monetary Authority instructions, the Bank must sell the buildings and land 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 5 years as a maximum.

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

	2019	2018
Balance, beginning of the year	803,141	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**	**803,141**

Following is a summary of movement on assets held for sale:

	2019	2018
Balance, beginning of the year	318,350	1,431,480
Less: Disposed properties	(318,350)	(1,113,130)
Balance, end of the year	**-**	**318,350**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (14) LEASES

Amounts recognized in the statement of financial position

The following balance are recognized in the statement of financial position:

	December 31, 2019	January 1, 2019
Leased branches	13,634,168	14,775,445
Leased offices	4,029,435	3,688,114
Rights of use assets	**17,663,603**	**18,463,559**
Lease liability		
current (less than 12 months)	1,153,224	1,695,545
Long term (less than 12 months)	16,145,165	16,090,859
Total	**17,298,389**	**17,786,404**

Movement on the balances during the year are as follows:

	Rights of use assets
Balance, beginning of the year 2019	-
Initial application of IFRS 16	18,463,559
Balance, beginning of the year 2019 (Restated)	18,463,559
Additions during the year	667,147
Deductions during the year	-
Depreciation during the year	(1,467,103)
Balance, end of the year	**17,663,603**

	Lease liability
Operating lease commitments disclosed as at 31 December 2018	22,718,880
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	(4,594,468)
Less low value lease and short-term leases	(338,008)
Initial application of IFRS 16	**17,786,404**
Balance, beginning of the year 2019 (Restated)	**17,786,404**
Additions during the year	667,147
Interest on lease liability	573,208
Payments on lease liability	(1,728,370)
Balance, end of the year	**17,298,389**

Amounts recognized in the statement of income:

	2019	2018
Depreciation on Right of use assets	1,467,103	-
interest on lease liabilities	573,208	-
Total	**2,040,311**	-

The total cash outflow for leases in 2019 was USD 1,728,370.

Notes to the Financial Statements

(All amounts are in US Dollars)

NOTE (15) INTANGIBLE ASSETS

Details:

	2019	2018
Balance at the beginning of the year	4,775,700	2,381,965
Addition during the year	-	35,151
Core customer deposits (*)	-	2,360,640
Amortization during the year	(872,011)	(2,056)
Balance at the end of the year	**3,903,689**	**4,775,700**

(*) This item represents the fair value of the intangible assets associated with core customer deposits resulting from the bank's acquisition of the assets and liabilities of Jordan Kuwait Bank - Palestine.

On September 1, 2018, an agreement was signed to acquire the assets and liabilities of Jordan Kuwait Bank's (JKB) branch in Palestine. 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. Based on the agreement signed, Quds bank paid USD 33,380,895 in cash and issued 8,357,067 shares representing 10% of its capital to Jordan Kuwait Bank. The total value of the issued stocks to Jordan Kuwait Bank at the date of the transactions amounted to USD 14,959,150 valued at USD 1.79 per share. The total cost of the investment amounted to USD 48,340,045 and resulted in intangible assets associated with basic customer deposits amounts to USD 2,360,640 as shown below.

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

	USD
Assets	
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 other comprehensive income	7,424,253
Property 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**
Core customer deposit - intangible assets (*)	**2,360,640**

(*) The bank allocated the purchase price during the year 2019 to the assets and liabilities of Jordan Kuwait Bank in Palestine, resulted in intangible assets that represents basic customer deposits of USD 2,360,640.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (16) PROJECTS UNDER CONSTRUCTION

Details:

	2019	2018
Balance at beginning of the year	3,718,633	4,370,174
Additions	3,808,805	-
Disposals (*)	(1,561,089)	(651,541)
Balance at end of the year	**5,966,349**	**3,718,633**

(*) The disposals represent completed projects that were converted into real estate and equipment in addition to projects under implementation that were sold during the year.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (17) PROPERTY AND EQUIPMENT - NET

Details:

	Land	Buildings	Furniture and office equipment	Computer Information systems	Vehicles	Leasehold Improvements	Total
December 31, 2019							
Cost							
Balance at the beginning of the year	13,092,779	4,059,034	4,233,598	10,034,228	945,472	16,757,968	49,123,079
Additions	-	-	135,753	1,534,176	189,354	781,279	2,640,562
Disposals	(4,269,200)	-	(46,386)	(617,567)	(201,403)	(695,028)	(5,829,584)
Transfers	-	-	5,419	19,988	-	(25,407)	-
Balance at the end of the year	**8,823,579**	**4,059,034**	**4,328,384**	**10,970,825**	**933,423**	**16,818,812**	**45,934,057**
Accumulated depreciation:							
Balance at the beginning of the year	-	804,168	2,687,427	5,196,735	301,901	9,907,444	18,897,675
Additions	-	81,179	333,579	878,158	119,815	1,299,158	2,711,889
Disposals	-	-	(24,453)	(548,742)	(153,771)	(516,757)	(1,243,723)
Transfers	-	-	732	4,136	-	(4,868)	-
Balance at the end of the year	**-**	**885,347**	**2,997,285**	**5,530,287**	**267,945**	**10,684,977**	**20,365,841**
Net book value December 31, 2019	**8,823,579**	**3,173,687**	**1,331,099**	**5,440,538**	**665,478**	**6,133,835**	**25,568,216**

Notes to the Financial Statements
(All amounts are in US Dollars)

	Land	Buildings	Furniture and office equipment	Computer Information systems	Vehicles	Leasehold Improvements	Total
December 31, 2018							
Cost							
Balance at beginning of the year	13,092,779	4,059,034	4,194,139	7,001,636	775,834	15,570,745	44,694,167
Additions	-	-	221,063	2,384,109	164,867	1,373,802	4,143,841
Acquired assets			107,282	1,226,000	56,221	113,716	1,503,219
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**	**10,034,228**	**945,472**	**16,757,968**	**49,123,079**
Accumulated depreciation:							
Balance at beginning of the year	-	722,987	2,520,041	4,601,880	233,421	8,696,990	16,775,319
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 the end of the year	**-**	**804,168**	**2,687,427**	**5,196,735**	**301,901**	**9,907,444**	**18,897,675**
Net book value December 31, 2018	**13,092,779**	**3,254,866**	**1,546,171**	**4,837,493**	**643,571**	**6,850,524**	**30,225,404**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (18) PALESTINE MONETARY AUTHORITY DEPOSITS

Details:

	2019	2018
Deposits at Palestine Monetary Authority / maturing within 3 months	29,999,949	40,576,000
Deposits at Palestine Monetary Authority / maturing after 3 months	57,858,651	-
	87,858,600	**40,576,000**

NOTE (19) BANKS AND FINANCIAL INSTITUTIONS DEPOSITS

Details:

	2019	2018
Local banks and financial institutions:		
Current and on demand accounts	412,483	183,273
Deposits maturing within three months	18,999,479	61,826,245
Foreign banks and financial institutions:		
Deposits maturing within three months	-	4,002,334
	19,411,962	**66,011,852**

NOTE (20) CUSTOMER'S DEPOSITS

Details:

	2019	2018
Current and on demand deposits	280,997,990	250,182,191
Saving deposits	345,353,169	336,160,986
Term deposits subject to note	311,027,176	291,335,355
	937,378,335	**877,678,532**

- The total public-sector deposits as at December 31, 2019 amounted to USD 8,969,230 representing 0.96% of total deposits against USD 11,199,586 as at December 31, 2018 representing 1.27% of total deposits.
- The total non-interest-bearing deposits as at December 31, 2019 amounted to USD 277,461,844 representing 26.91% of total deposits against 222,749,634 USD representing 28.34% of total deposits as at December 31, 2018.
- The total dormant deposits as at December 31, 2019 amounted to USD 35,849,398 representing 3.48% of total deposits against USD 22,092,251 representing 2.81% of total deposits as at December 31, 2018.
- The total customers' deposits in foreign currencies as at December 31, 2019 amounted to USD 595,432,317 against USD 431,185,948 as at December 31, 2018
- The total non-resident customers' deposits as at December 31, 2019 amounted to USD 29,940,469 against USD 19,379,067 as at December 31, 2018.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (21) CASH MARGINS

Details:

	2019	2018
Cash margins against direct facilities	68,030,116	61,206,440
Cash margins against indirect facilities	8,414,083	5,796,260
Other cash margins	17,128,938	14,446,560
	93,573,137	**81,449,260**

NOTE (22) TAX PROVISION

1. The movement on the provision for income tax for the year ended December 31, 2019 and the year ended December 31, 2018 was as follows:

	2019	2018
Balance, beginning of the year	1,952,704	2,051,998
VAT tax expenses on profit for the year	2,870,350	2,465,836
Income tax expenses on profit for the year	1,841,995	1,272,086
Provision for the year	**4,712,345**	**3,737,922**
Incentive tax discounts	(205,977)	(189,220)
Paid during the year	(2,892,933)	(3,647,996)
Currency variances	(201,816)	-
Balance, end of the year	**3,364,323**	**1,952,704**

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, 2019 and 2018 was calculated according to applicable laws and regulations and International Financial Reporting Standards.

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

	2019	2018
Accounting profit of the Bank	14,439,003	15,144,543
VAT taxable profit	11,409,739	10,959,895
Less:		
VAT	(1,573,757)	(1,511,710)
Taxable profit for income tax, net of VAT	6,345,494	7,127,705
Income tax	951,824	770,000
Total calculated income tax and VAT	2,525,581	2,281,710
Income tax allocated for the year	4,712,345	3,737,922
Incentive tax discounts	(205,977)	(189,220)
Deferred tax assets	(1,294,871)	-
Tax expense	3,211,497	3,548,702

Notes to the Financial Statements
(All amounts are in US Dollars)

2. The movement of deferred tax assets is as follows:

Items Included	Balance beginning of the year	Released	Additions	Balance end of the year	Deferred Tax
Provision for lawsuits	107,494	(71,400)	100,000	136,094	37,018
Provision for end of service indemnity	5,956,200	(992,286)	1,494,541	6,458,455	1,756,700
Losses on stage 1 and 2 facilities	7,562,220	-	2,150,612	9,712,832	567,880
Total	**13,625,914**	**(1,063,686)**	**3,745,153**	**16,307,381**	**2,361,598**

The movement on deferred tax assets is as follows:

	2019	2018
Balance, beginning of the year	1,066,727	1,066,727
Additions	1,294,871	-
Balance, end of the year	**2,361,598**	**1,066,727**

- The Income tax rates on deferred tax assets and liabilities ranged between 26% - 30% in accordance to the Income Tax laws prevailing in Palestine.

NOTE (23) BORROWED FUNDS

This amount represents the outstanding balance of the Palestine Mortgage and Housing Corporation as at December 31, 2019 to finance the housing loans granted by Quds Bank for a period up to five years. According to the agreement between Quds Bank and Palestine Mortgage and Housing Corporation dated June 4, 2014 the interest rate is determined upon the request of the refinancing loans.

Notes to the Financial Statements

(All amounts are in US Dollars)

NOTE (24) OTHER LIABILITIES

	2019	2018
Accrued and unpaid interests	4,316,256	2,827,552
Accrued and unpaid expenses	927,307	1,366,071
Outstanding checks and money transfer orders	19,362,179	15,410,131
Temporary accounts	747,261	953,000
Accrual for Directors' remuneration	377,000	362,500
Accounts payable	1,920,332	2,434,246
Taxes deducted from customers and employees' salaries	108,190	117,024
Unpaid cash dividends	393,021	224,859
Net forward currency exchange deals	773,045	103,248
Received commissions that are not due	3,297,277	3,584,459
Provision for impairment of indirect credit facilities (*)	230,591	142,268
Others	849	29,841
	32,453,308	**27,555,199**

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

	Stage (1)	Stage (2)	Stage (3)	2019
Balance, beginning of the year	71,133,853	-	-	71,133,853
Additions during the year	65,302,810	-	-	65,302,810
Paid during the year	(47,525,701)	-	-	(47,525,701)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Balance, end of the year	**88,910,962**	**-**	**-**	**88,910,962**

	Stage (1)	Stage (2)	Stage (3)	2018
Balance, beginning of the year	68,845,478	-	-	68,845,478
Additions during the year	40,538,381	-	-	40,538,381
Paid during the year	(38,250,006)	-	-	(38,250,006)
Transferred to stage 1	-	-	-	-
Transferred to stage 2	-	-	-	-
Transferred to stage 3	-	-	-	-
Balance, end of the year	**71,133,853**	**-**	**-**	**71,133,853**

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

	Stage (1)	Stage (2)	Stage (3)	2019	2018
Balance beginning of the year	142,268	-	-	142,268	137,691
Impairment loss during the period	98,437	-	-	98,437	4,577
Recoveries	(10,114)	-	-	(10,114)	-
Balance, end of the year	**230,591**	**-**	**-**	**230,591**	**142,268**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (25) SUBORDINATED LOAN

The bank obtained a loan on April 2, 2019 at a value of USD 10,000,000 with an annual interest rate of 5%, for the purpose of supporting the second tier of its capital provided that the loan is paid in accordance with 5 annual installments and the first installment will be on April 1, 2020.

The bank obtained a loan on July 7, 2019 at a value of USD 5,000,000 with an annual interest rate of 5%, for the purpose of supporting the second tier of its capital provided that the loan is paid in accordance with 5 annual installments and the first installment will be on July 1, 2020.

NOTE (26) SUNDRY PROVISIONS

Details:

	Beginning Balance	Provision for the year	Paid during the year	Ending Balance
December 31, 2019				
Provision for end of service indemnity	5,956,200	1,494,541	(992,286)	6,458,455
Provision for lawsuits	107,494	100,000	(71,400)	136,094
	6,063,694	**1,594,541**	**(1,063,686)**	**6,594,549**

	Beginning Balance	Provision for the year	Paid during the year	Ending Balance
December 31, 2018				
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**

NOTE (27) 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 except as mentioned below.

On its meeting held on April 21, 2019 the Bank's General Assembly approved distribution of dividends representing stock dividends of 7.9% of its paid in capital totaling USD 6,602,083. As well as distribution of cash dividends of USD 4,679,958 representing of 5.6% of the banks paid-in capital on that date.

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.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (28) SHARE PREMIUM

As explained in Note 15, On September 1, 2018, an agreement was signed to acquire the assets and liabilities of Jordan Kuwait Bank's (JKB) branch in Palestine. 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. Based on the agreement signed, Quds bank paid USD 33,380,895 in cash and issued 8,357,067 shares representing 10% of its capital to Jordan Kuwait Bank. the total value of the issued stocks to Jordan Kuwait Bank at the date of the transactions amounted to USD 14,959,150 valued at USD 1.79 per share. The bank accounted for the nominal value of the issued stocks in the amount of USD 8,357,067 as an increase in capital, while the additional premium received on the stock issuance of USD 6,602,083 as a share premium equity account. During the year 2019, Quds bank obtained the required approvals to reclassify the share premium balance to increase the banks' capital account as explained in Note (27).

NOTE (29) 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 risks 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. 6/2015), 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 2019 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.

Pro-cyclicality 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 Pro-cyclicality 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 Pro-cyclicality 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 2019 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 2019 and added to the previously formed reserve. It is prohibited to dispose of the Pro-cyclicality reserve for any purpose without the prior approval of the Palestine Monetary Authority, including the previously formed reserve based on the previous relevant instructions.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (30) RETAINED EARNINGS

Details:

	2019	2018
Balance, beginning of the year (before adjustment)	8,325,950	15,666,791
Effect of application of IFRS 9 regarding Impairment	-	(645,654)
Balance, beginning of the year (adjusted)	**8,325,950**	**15,021,137**
Net profit for the year	11,227,506	11,595,841
Proceeds from selling financial assets recognized directly in retained earnings	-	(273,844)
Bonus shares distribution		(6,837,600)
Cash distribution	(4,679,958)	(6,837,600)
Transferred to statutory reserve	(1,122,751)	(1,159,584)
Transferred to a general banking risk reserve	-	(3,182,400)
Balance, end of the year	**13,750,747**	**8,325,950**

NOTE (31) INTEREST INCOME

Details:

	2019	2018
Loans interests	45,592,146	40,381,370
Add:		
Loan commissions	5,365,024	6,484,062
	50,957,170	**46,865,432**
overdraft accounts	6,715,809	6,965,276
Discounted bills	848,130	732,985
Balances at banks and financial institutions	1,745,218	1,016,574
Credit cards	1,355,278	1,552,220
Financial assets at amortized cost	1,066,508	824,884
Interest on Loans at fair value	204,356	-
	62,892,469	**57,957,371**

NOTE (32) INTEREST EXPENSE

Details:

	2019	2018
Interest on customer's term deposits	10,703,549	9,679,756
Customers saving deposits	739	1,400,658
Customers current and demand deposits	253,520	112,315
	10,957,808	**11,192,729**
Interest on banks and financial institutions	575,242	679,953
Interest on Palestine Monetary Authority deposits	943,727	569,953
Interest on bank borrowings	504,166	-
Others:		
Interest paid for cash margins	709,897	759,347
Commissions paid for direct credit facilities	1,587,407	1,303,580
	15,278,247	**14,505,562**

Notes to the Financial Statements

(All amounts are in US Dollars)

NOTE (33) NET COMMISSION'S INCOME

Details

	2019	2018
Commission income		
Indirect credit facilities	931,491	719,429
Accounts management, transfers and others	6,109,636	5,780,584
	7,041,127	**6,500,013**
Commission expenses		
Local banks and institutions	72,252	64,782
Foreign banks and institutions	419,396	316,928
Other commission expense	939,334	819,564
	1,430,982	**1,201,274**
Net	**5,610,145**	**5,298,739**

NOTE (34) NET GAIN FROM FOREIGN CURRENCY EXCHANGE

This item represents profits resulting from assets and liabilities revaluation and spot and forward foreign exchange contracts in addition to foreign exchange movements for the bank's customers during the year.

NOTE (35) NET GAIN FROM FINANCIAL ASSETS

	2019	2018
Unrealized loss from revaluation of financial assets at fair value through statement of income	(4,166)	(12,754)
Dividends from FVTOCI investments	349,403	84,584
Other	388	-
	345,625	**71,830**

NOTE (36) OTHER INCOME

	2019	2018
Safe boxes rental	64,472	54,492
Postal, fax, telegram and telephone revenue	52,024	118,080
Other income	372,474	356,482
Income from checkbooks	330,236	338,452
Loss from disposal of property and equipment	(674,453)	(120,954)
	144,753	**746,552**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (37) PERSONNEL EXPENSES

Details:

	2019	2018
Salaries, wages and benefits	15,057,411	14,442,122
Bank's contribution in provident fund (*)	664,203	645,913
VAT on payroll	2,423,980	2,320,481
Medical expenses	784,872	778,961
Staff training expenses	248,391	342,375
Travel and transportation expenses	364,635	382,832
Employees' end of service benefits	1,494,541	1,517,095
Employees' leave allowance	60,342	60,881
Employees life insurance	96,649	88,664
Employees' uniform	99,289	80,737
Other	4,044	-
	21,298,357	**20,660,061**

(*) 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%.

Notes to the Financial Statements

(All amounts are in US Dollars)

NOTE (38) OTHER OPERATING EXPENSES

	2019	2018
Rents	338,008	1,695,039
Deposit insurance fee (*)	2,643,469	2,267,410
Insurance charges	233,349	168,845
Water, electricity and fuel	749,771	754,362
Cleaning expenditures	403,732	362,709
Interest on lease liability	573,208	-
Maintenance and repairs	1,223,820	1,091,438
Hospitality	121,722	109,589
Meeting expenses	234,741	196,858
Advertising and publicity	362,330	710,579
Fees, licenses and subscriptions	437,621	496,250
Donations and sponsorships (**)	237,822	799,414
Services	378,211	266,308
Stationery, printing and checkbooks	375,204	384,061
Mail, phone and swift	1,663,949	1,634,354
Software	798,000	421,823
Fees and taxes	204,232	265,357
Consulting and legal fees	598,550	714,792
Lawsuits expenses	100,000	10,422
Vehicle and transportation expenses	174,602	198,257
Board of Directors' expenses and remuneration	505,555	582,797
Clearing expenses	480,471	440,395
Other expenses	70,865	58,944
	12,909,232	**13,630,003**

(*) 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 237,822 for the year 2019, which represents 2.12% of the profits compared to USD 799,414 during the year 2018 which represents 6.89% of the profits.

Notes to the Financial Statements

(All amounts are in US Dollars)

NOTE (39) COMMITMENT AND CONTINGENT LIABILITIES

Details:

	2019	2018
Guarantees	47,909,250	34,937,152
Letters of credits	9,237,058	9,969,753
Acceptances	4,791,826	1,208,528
Unutilized direct credit facilities limits	26,972,828	25,018,420
	88,910,962	**71,133,853**
Provision for impairment of indirect credit facilities	(230,591)	(142,268)
Commitments and contingent liabilities - net	**88,680,371**	**70,991,585**

NOTE (40) RELATED PARTIES' TRANSACTIONS

This Item represents transactions made with related parties, which include key Shareholders, members of the board of 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:

2019	**Key management personnel and board of directors**	**Major shareholders**	**Shareholders and related parties of the shareholders**	**Total**
Items on the statement of financial position:				
Direct credit facilities	5,976,954	-	21,800,716	27,777,670
Deposits	1,423,267	-	2,531,203	3,954,470
Provision for employees' indemnity	377,000	-	-	377,000
Indirect credit facilities	54,887	-	342,835	397,722
				32,506,862
Items on the statement of income:				
Interests and commissions received	313,082	-	1,251,384	1,564,466
Interests and commissions paid	19,218	-	28,184	47,402
Board of Directors' remuneration and fees	505,555	-	-	505,555
Salaries and related expenses	1,751,545	-	-	1,751,545
				3,868,968

Notes to the Financial Statements

(All amounts are in US Dollars)

2018	Key management personnel and board of directors	Major shareholders	Shareholders and related parties of the shareholders	Total
Items on the statement of financial position:				
Direct credit facilities	5,393,093	-	22,007,603	27,400,696
Deposits	1,796,519	-	1,507,254	3,303,773
Provision for employees' indemnity	362,500	-	-	362,500
Indirect credit facilities	66,389	-	1,015,045	1,081,434
				32,148,403
Items on the statement of income:				
Interests and commissions received	229,393	-	1,132,058	1,361,451
Interests and commissions paid	6,132	-	144	6,276
Board of Directors' remuneration and fees	582,798	-	-	582,798
Salaries and related expenses	1,595,912	-	-	1,595,912
				3,546,437

The "Shareholders and related parties of the shareholders" clause includes non-major shareholders and their first-degree relatives (according to what is disclosed to the Palestinian Monetary Authority).

- Direct credit facilities granted to related parties as at December 2019 and December 31, 2018 represent a percentage of 3.51% and 3.93% respectively of net direct credit facilities.
- Direct credit facilities granted to related parties as at December 31, 2019 and December 31, 2018 represent a percentage of 26.78% and 26.50% respectively of the Bank's capital base.
- Interest rate on direct credit facilities in USD ranges between 3% to 3.5%.
- Interest rate on deposits in USD ranges between 1% to 1.75%.
- Interest rate on deposits in Euro ranges between 0.5% to 2%.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (41) CASH AND CASH EQUIVALENTS

Details:

	2019	2018
Cash and balances with Palestine Monetary Authority	242,456,505	252,146,806
Balances at banks and financial institutions maturing within three months	191,751,820	153,852,600
Less:		
Deposits of banks and financial institutions and PMA maturing within three months	(49,411,911)	(106,587,852)
Requirements of statutory cash reserve	(87,894,404)	(83,670,942)
	296,902,010	**215,740,612**

NOTE (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.

	2019	2018 (restated)
Profit for the year	11,227,506	11,595,841
Outstanding weighted average number of shares	90,172,750	84,601,372
Basic and diluted earnings per share of profit for the year	**0.125**	**0.137**

NOTE (43) LITIGATIONS AGAINST THE BANK

There are lawsuits filed against the Bank to revoke the Bank's claims against others and/or to claim damage, labor and other claims. There are 35 lawsuits for 2019 against 34 lawsuits for 2018. The legal department of the Bank believes that the amount of lawsuits that may result in future liabilities is USD 5,814,804 for 2019 against USD 3,092,772 for 2018. The provision made for lawsuits amounted to USD 136,094 for 2019 against USD 107,494 for 2018. According to the Bank's legal advisor, this provision is sufficient to cover such lawsuits.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (44) 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: include 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.
Others business sector: Includes other items that do not represent any of the above sectors (such as other non-operating income and case expenses).

	Individuals	Companies and institutions	Treasury	Others	2019
Total revenues	**15,928,670**	**25,578,276**	**12,069,053**	**8,567,308**	**62,143,307**
Impairment provision, net	(3,593,730)	(5,069,027)	(24,799)	164,659	(8,522,897)
Business sector results	12,334,940	20,509,249	12,044,254	8,731,967	53,620,410
Unallocated expenses	-	-	-	-	(39,181,407)
Profit before tax	**12,334,940**	**20,509,249**	**12,044,254**	**8,731,967**	**14,439,003**
Tax expense	-	-	-	-	(3,211,497)
Net profit for the year	-	-	-	-	**11,227,506**
Other information:					
Sectors' assets	258,128,324	537,461,098	461,836,908	73,245,711	1,330,672,041
Sectors' liabilities	636,119,261	395,045,853	107,270,561	74,710,573	1,213,146,248
Capital expenditures	-	-	-	-	6,449,367
Depreciation and amortization	-	-	-	-	5,051,003

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (44) BUSINESS SECTORS (CONTINUED)

	Individuals	Companies and institutions	Treasury	Others	2018
Total revenues	**23,082,638**	**26,549,213**	**9,533,144**	**11,346,726**	**70,511,721**
Impairment provision, net	(2,859,588)	(1,882,053)	-	-	(4,741,641)
Business sector results	**20,223,050**	**24,667,160**	**9,533,144**	**11,346,726**	**65,770,080**
Unallocated expenses	-	-	-	-	(50,625,537)
Profit before tax	-	-	-	-	**15,144,543**
Tax expense	-	-	-	-	(3,548,702)
Net profit for the year	-	-	-	-	**11,595,841**
Other information:					
Sectors' assets	268,844,303	406,634,526	463,687,474	73,858,825	1,213,025,128
Sectors' liabilities	578,072,102	381,350,467	106,587,852	35,571,598	1,101,582,019
Capital expenditures	-	-	-	-	5,647,060
Depreciation and amortization	-	-	-	-	2,840,766

	Inside Palestine		Outside Palestine		Total	
	2019	2018	2019	2018	2019	2018
Profit for the year	11,227,506	10,365,922	-	1,229,919	**11,227,506**	**11,595,841**
Assets	1,159,584,508	1,104,498,833	171,087,533	108,526,295	**1,330,672,041**	**1,213,025,128**
Capital expenditures	6,449,367	5,647,060	-	-	**6,449,367**	**5,647,060**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (45) CONCENTRATION OF CREDIT EXPOSURES IN TERMS OF GEOGRAPHICAL DISTRIBUTION
Details:

	2019				
Assets	**Palestine**	**Jordan**	**Israel**	**Others**	**Total**
Balances at Palestine Monetary Authority	242,456,505	-	-	-	242,456,505
Balances with banks and financial institutions	38,051,526	51,722,663	41,257,764	60,597,184	191,629,137
Loans at fair value	-	5,077,573	-	-	5,077,573
Direct credit facilities - Net	790,511,855	-	-	-	790,511,855
Financial assets at amortized cost	10,740,274	6,225,086	-	1,000,000	17,965,360
Other assets	4,489,174	-	-	-	4,489,174
	1,086,249,334	**63,025,322**	**41,257,764**	**61,597,184**	**1,252,129,604**
Off balance sheet items					
Unutilized credit facilities limits	26,972,828	-	-	-	26,972,828
Letter of guarantees	47,909,250	-	-	-	47,909,250
Letters of credit	9,237,058	-	-	-	9,237,058
Acceptable withdrawals and policies	4,791,826	-	-	-	4,791,826
	88,910,962	**-**	**-**	**-**	**88,910,962**

	2018				
Assets	**Palestine**	**Jordan**	**Israel**	**Others**	**Total**
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
Direct credit facilities - Net	697,803,505	-	-	-	697,803,505
Financial assets at amortized cost	10,688,065	7,764,947	-	-	18,453,012
Other assets	3,685,186	-	-	-	3,685,186
	1,024,466,998	**30,606,313**	**31,397,611**	**46,420,873**	**1,132,891,795**
Off balance sheet items		-	-		
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**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (46) FAIR VALUE MEASUREMENT

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 specific 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.

The value of assets and liabilities not presented at fair value throughout the financial statements have no material difference from their book value.

The Bank uses the following hierarchy for determining and disclosing the fair value of its financial instruments:
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.

Financial instruments which have close fair and book values are monetary assets and liabilities or assets and liabilities maturing in three months or less and have near fair value and book value.

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

Notes to the Financial Statements
(All amounts are in US Dollars)

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

	2019				2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level (1)	Level (2)	Level (3)		Level (1)	Level (2)	Level (3)
Assets								
Cash and balances at Palestine Monetary Authority	242,456,505		242,456,505		252,146,806		252,146,806	
Balances at banks and financial institutions	191,629,137		191,629,137		160,803,286		160,803,286	
Financial assets at fair value through the statement of income	86,340	86,340			90,506	90,506	-	
Financial assets at fair value through other comprehensive income	8,189,255	7,386,919		802,336	5,663,480	4,861,144	-	802,336
Loans at Fair value	5,077,573	5,077,573			-	-	-	
Derivative instruments (Positive)	1,956,039		1,956,039		3,558,493		3,558,493	
Liabilities								
Palestine Monetary Authority deposits	87,858,600		87,858,600		40,576,000		40,576,000	
Banks and financial institutions deposits	19,411,962		19,411,962		66,011,852		66,011,852	
Customers' deposits	937,378,335		937,378,335		877,678,532		877,678,532	
Cash margins	93,573,137		93,573,137		81,449,260		81,449,260	
Derivative instruments (negative)	773,045		773,045		103,248		103,248	

Notes to the Financial Statements
(All amounts are in US Dollars)

The table below shows the impact of a change in estimates by 5% on the Bank's assets and liabilities that are measured at fair value using level 3 at 31 December 2019 and 2018:

	Fair value	Change in 5%	Sensitivity of fair value remeasurement on the statement other comprehensive income	Sensitivity of fair value remeasurement on the statement of income
FINANCIAL Assets at fair value				
Financial assets at fair value through other comprehensive income	802,336	5%	40,117	-
Non-financial assets				
Seized assets	803,141	5%	-	40,157

46.1 Estimation of fair values
The following summarizes the major methods and assumptions used in estimating the fair values of assets and liabilities:

46.1.1 Direct credit facilities
Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

46.1.2 Financial assets at fair value through OCI and fair value through the statement of income
Fair values for quoted investments are based on quoted bid prices as at the reporting date. Unquoted equity investments are carried at fair values, measured in accordance with appropriate valuation methods-based o discounted cash flows and other techniques.

Where cash flow techniques are used, discounted cash flows are based on management’s best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

46.1.3 Bank and customer deposits
For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not considered when estimating fair values.

Notes to the Financial Statements
(All amounts are in US Dollars)

46.1.4 Off-balance sheet and derivative financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of other assets and other liabilities.

NOTE (47) CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that it maintains adequate capital ratios in order to support its business and maximize shareholder value.

The Bank manages its capital structure and adjusts in light of changes in economic and business conditions. No changes were made in the objectives, policies or processes regarding capital structure during the current year.

The capital adequacy ratio is calculated in accordance with PMA's instruction No. (6/2015) derived from Basel committee regulations. Following is the capital adequacy rates compared to the previous year:

	2019			2018		
	Amount	Ratio to assets	Ratio to risk-weighted assets	Amount	Ratio to assets	Ratio to risk-weighted assets
		%	%		%	%
Basic capital	103,382,426	7.77	11.24	100,121,554	8.25	12.33
Regulatory capital	126,830,784	9.53	13.78	105,708,921	8.71	13.02

The Bank maintains an appropriate paid-in-capital in order to meet its operational risk, and it regularly monitors its capital adequacy in accordance with Basel to comply with the Palestinian Monetary Authority (PMA).

Through its operational years; the Bank maintained a capital adequacy ratio in excess of 8%, being the minimum capital adequacy rate required by the PMA (8% as per Basel). Furthermore, the Bank regularly reviews and complies with the concentration ratios using regulatory capital as an indicator.

There has been no change on the Bank's capital structure during 2019 and 2018 except as described in Note (27).

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (48) DERIVATIVE FINANCIAL INSTRUMENTS
The table below shows the details of derivative financial instruments at the end of the year.

			Par (nominal) value maturity		
	Positive fair value	Negative fair value	Total nominal amount	Within 3 months	More than 3 months
2019					
Currency sale contract	1,956,039	-	320,391,910	-	320,391,910
Currency purchases contract	-	773,045	320,792,472	-	320,792,472
2018					
Currency sale contract	3,558,493	-	193,222,919	-	193,222,919
Currency purchases contract	-	103,248	195,672,596	-	195,672,596

The par (nominal) value indicates the value of the outstanding transactions at year end and does not indicate market risk or credit risk.

NOTE (49) 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 interest rate risks, currency risks and equity price risks.

Risk management process
The Bank's Board of Directors is responsible for the identification and control of risks. In addition, several other parties 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.

Notes to the Financial Statements
(All amounts are in US Dollars)

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 to 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 address the violations.
- Review internal evaluation document of the adequacy of the Bank's capital and submit it to the Board of Directors for approval, considering 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, operational 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.

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.

Notes to the Financial Statements
(All amounts are in US Dollars)

Credit risk management
Credit risk is the risk that the other party's default or inability to meet its obligations to the Bank which 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.

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.

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 client-level concentration over the prescribed limits.

Notes to the Financial Statements
(All amounts are in US Dollars)

Key Credit Risk Management Methods:

1. Credit facilities (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The bank measures credit risk using the concept of Expected Loss which requires the following measures:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

Under IFRS 9 expected loss is replaced by expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults.

2. Credit risk grading

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.

Default and default treatment 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 like 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 rating system for corporate clients:

The bank utilize specific models 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 performing calculations to extract the so-called average assessment which is shown in the form of consecutive characters.

Notes to the Financial Statements
(All amounts are in US Dollars)

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.

3. Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition of a facility as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The identification of SICR is measured via a change in one-year probability of default between the date of inception of facility and the date of IFRS 9 ECL run.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).
- All government and government-guaranteed financial instruments have been considered in the calculation of total expected credit losses.

4. Significant increase in credit risk (SICR)

The bank considers a financial asset to have experienced a significant increase in credit risk when a significant change in one-year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date.

Notes to the Financial Statements
(All amounts are in US Dollars)

Quantitative criteria

Corporate loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating Performance
- Operating Efficiency
- Debt Service
- Liquidity Assessment
- Capital structure
- Credit reduction

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:
- Adverse findings for an account/ borrower as per credit department data;
- Accounts overdue over 30 days

Treasury:
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

Qualitative criteria

Corporate Loans:
For corporate loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following Default Risk Indicator's (DRI):
- Past Due
- Fraudulent Activity
- Financial Covenants Breach
- Significant Operations Disruption

For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following qualitative factors:

- Management
- Industry Outlook
- Financial Conduct
- Income Stability
- Lifecycle Stage
- Auditor Information

If the borrower is more than 30 days past due on its contractual payments a backstop is applied, and the financial asset is considered to have experienced a significant increase in credit risk.

Notes to the Financial Statements
(All amounts are in US Dollars)

5. Definition of default and credit-impaired assets

The bank defines a financial corporate, retail and investment instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria:
The borrower is more than 90 days past due on its contractual payments.

- Qualitative criteria:
According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation in full without recourse by the Bank to actions like realizing security (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation.
- The obligor is past due more than 90 days on any material credit obligation

The criteria above have been applied to all financial instruments held by the bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of 3 months. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

The Bank applies a three-stage approach to measuring ECL on financial instruments accounted for at amortized cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

ii) Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.

iii) Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Notes to the Financial Statements
(All amounts are in US Dollars)

6. Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The bank has adopted a forward exposure method for computing the ECL for each facility. The bank has opted for a monthly granular computation of PD, EAD and LGD.

- Probability of default (PD):

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on externally and internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. Collateral values were adjusted applying S&P data to arrive at the appropriate collateral values for the purposes of LGD calculation.

- Loss given default (LGD):

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

- Exposure at default (EAD):

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

- Expected credit loss

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

Notes to the Financial Statements
(All amounts are in US Dollars)

- The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.

- The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

- Forward-looking economic information is also included in determining the 12-month and lifetime PD.

- There have been no significant changes in estimation techniques or significant assumptions made during the year.

7. Importance of staging criteria

- Staging is based on the assessment of relative movement in the credit quality of the loans from the time of initial recording.

- Loans in stage 3 are those loans for which the bank has objective evidence of impairment. Accordingly, specific provision is recorded for such exposures.

- Stage transfer is triggered by assessing the relative change in credit risk (measured using lifetime risk of default) and not by the absolute credit risk at the reporting date.

8. Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the bank's experts team. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Notes to the Financial Statements
(All amounts are in US Dollars)

9. IFRS 9 Governance

This section describes the roles and responsibilities of the Committees and groups, specific to the IFRS 9 process at the Bank.

- BOARD OF DIRECTORS (BoD)
The Board will be responsible for:
- Approving the IFRS 9 Framework, that has been recommended by RMC,
- Maintaining ECL allowances at an appropriate level and oversee and monitor appropriate credit risk practices for assessment and measurement processes, including internal controls in place to consistently determine allowances in accordance with the stated policies and procedures, the applicable accounting framework and relevant supervisory guidance.

The BOD may delegate the responsibility of reviewing the detailed IFRS 9 related policies to the. – Risk Management Committee ("RMC")

The Risk Management Committee will be responsible for:
- Reviewing and recommending the IFRS 9 framework to the BoD,
- Reviewing the implementation of IFRS 9 and ensuring the appropriate steps for compliance,
- Reviewing and approving the periodic disclosures in accordance to the Standard.
- Recommending adjustments to the business models, framework, methodology and policies and procedures

- Internal Audit Department

Internal Audit Department will be responsible for independently:
- Ensure the Bank's overall compliance with the standard
- Reviewing the methodology and assumptions to ensure compliance
- Ensure appropriate levels of expected credit losses relative to the Bank's profile.

- Risk management Department
The Head of Risk Management and his/her respective personnel in the department will be responsible for:
- Coordinate between the different departments and units to manage the implementation of IFRS 9.
- Assist in creating and reviewing the framework and methodology to be implemented by the Bank.
- Creating the expected credit loss models in compliance with the standard.
- Evaluate the impact of the ECL on the capital adequacy ratio.

- Credit Control Department is responsible for:
- Identifying the stages of each customer
- Review the calculation for each customer
- Updating customer information for IFRS 9 calculations

Notes to the Financial Statements
(All amounts are in US Dollars)

Credit Risk Exposures (after impairment provisions and suspended interest and before collateral held or other mitigation factors):

	2019	2018
Statement of financial position items		
Balances at Palestine Monetary Authority	124,134,442	111,968,882
Balances at banks and financial institutions	191,629,137	160,803,286
Loan at fair value	5,077,573	-
Direct credit facilities:		
Retail	242,593,502	252,848,244
Real estate loans	32,859,167	30,423,472
Corporates	275,459,433	199,806,974
SMEs	217,370,646	210,623,282
Government Loans	53,148,287	25,225,150
Financial assets at amortized cost	18,001,311	18,534,945
Other assets	4,489,174	3,685,186
	1,164,762,672	**1,013,919,421**
Off balance sheet items		
Guarantees	47,909,250	34,937,152
Letters of credits	9,237,058	9,969,753
Acceptances	4,791,826	1,208,528
Unutilized direct credit facilities limits	26,972,828	25,018,420
	88,910,962	**71,133,853**

The table above represents the maximum limit of the Bank's credit risk exposure as of 31 December 2019 and 2018, without taking into consideration the collateral and the other factors which will decrease the Bank's credit risk.

For the statement of financial position items, the exposure in the above table is based on the balances as appeared on the statement of financial position, in addition to the related accrued interests.

Notes to the Financial Statements
(All amounts are in US Dollars)

The following is the distribution of credit exposures on the financial position items by the categories of the bank's internal rating and global credit rating agencies:

Bank's internal rating grade	Internal Rating category	Gross amount of exposure	Credit rating	Collateral fair value
Balances at banks and financial institutions	Low risk	74,352,156	A3/BBB-	-
	Acceptable risk	117,276,981	Non rated	-
Direct credit facilities				
Individuals	Low risk	170,918,903		27,070,222
	Acceptable risk	58,117,286		9,204,645
	Watchlist	3,183,549		504,212
	Substandard	1,549,839		245,464
	Doubtful	3,180,337		503,703
	Non-performing	5,643,588		1,520,850
Real estate loans	Low risk	27,197,106		37,522,803
	Acceptable risk	5,379,340		7,421,669
	Watchlist	-		-
	Substandard	-		-
	Doubtful	-		-
	Non-performing	282,721		390,059
corporates	Low risk	273,178,596	B+-BBB	296,822,368
	Acceptable risk	206,402	BBB-CC	224,266
	Watchlist	-		-
	Substandard	-		-
	Doubtful	-		-
	Non-performing	2,074,435		2,531,872
Small and Medium Sized Companies	Low risk	182,944,453		75,730,036
	Acceptable risk	15,886,180		6,576,100
	Watchlist	4,605,135		1,906,300
	Substandard	211,170		87,414
	Doubtful	3,805,448		1,575,269
	Non-performing	9,918,260		5,990,549
Government and Public Sector	Low risk	53,148,287		4,410,482
	Acceptable risk	-		-
	Watchlist	-		-
	Substandard	-		-
	Doubtful	-		-
	Non-performing	-		-
Indirect credit facilities	Low risk	88,910,962		-
Debt instrument at amortized cost	Low risk	1,500,054	A3	-
	Acceptable risk	16,501,257	Non rated	-

Notes to the Financial Statements
(All amounts are in US Dollars)

Following is the macroeconomic factors impact on the forward-looking information based on multiple scenarios as at December 31, 2019:

Economic Variables	ECL Scenario	Assigned Probabilities %	Percentage Change in economic variables (%) 2019
GDP	Base Case	80	0.02
	Best Case	10	0.05
	Worst Case	10	(0.03)
Unemployment Rate	Base Case	80	(0.09)
	Best Case	10	(0.16)
	Worst Case	10	0.05

Economic Variables	ECL Scenario	Assigned Probabilities %	Percentage Change in economic variables (%) 2018
GDP	Base Case	80	0.01
	Base Case	10	0.05
	Worst Case	10	(0.03)
Unemployment Rate	Base Case	80	0.03
	Base Case	10	(0.05)
	Worst Case	10	0.07

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

	Individuals	Corporates	SMEs	Real estate Loans	Government and public sector	Total
December 31, 2019						
Cash margins	32,340,384	30,353,078	18,136,009	-	-	80,829,471
Property	6,689,167	210,236,447	68,437,659	45,334,531	4,410,482	335,108,286
Quoted shares	19,545	58,988,981	5,292,000	-	-	64,300,526
	39,049,096	**299,578,506**	**91,865,668**	**45,334,531**	**4,410,482**	**480,238,283**

	Individuals	Corporates	SMEs	Real estate Loans	Government and public sector	Total
December 31, 2018						
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**

Notes to the Financial Statements
(All amounts are in US Dollars)

Credit risk (Continued)

Credit Concentration based on geographic distribution is as follows:

a) Total distribution of exposures according to financial instruments subject to impairment losses

	Domestic	Jordan	Israel	Others	Total
December 31, 2019					
Cash and balances at Palestine Monetary Authority	242,456,505	-	-	-	242,456,505
Balances at banks and financial institutions	38,051,526	51,722,663	41,257,764	60,597,184	191,629,137
Loan at fair value	-	5,077,573	-	-	5,077,573
Direct credit facilities - Net	790,511,855	-	-	-	790,511,855
Financial assets at amortized cost	10,740,274	6,225,086	-	1,000,000	17,965,360
Other assets	4,489,174	-	-	-	4,489,174
Total as at December 31, 2019	**1,086,249,334**	**63,025,322**	**41,257,764**	**61,597,184**	**1,252,129,604**
Total as at December 31, 2018	**1,102,113,518**	**31,731,841**	**31,397,611**	**47,782,158**	**1,213,025,128**
Off the statement of financial position items:					
Guarantees	47,909,250	-	-	-	47,909,250
Letters of credits	9,237,058	-	-	-	9,237,058
Acceptances	4,791,826	-	-	-	4,791,826
Unutilized direct credit facilities limits	26,972,828	-	-	-	26,972,828
Total as at December 31, 2019	**88,910,962**	-	-	-	**88,910,962**
Total as at December 31, 2018	**71,133,853**	-	-	-	**71,133,853**

Notes to the Financial Statements
(All amounts are in US Dollars)

Concentration in credit exposures based on economic sectors is as follows:

a) Total distribution of exposures according to geographic region

	Financial	Industrial and tourism	Trade	Real estate	Securities	Government and public sector	Others	Total
December 31, 2019								
Cash and balances at Palestine Monetary Authority	124,134,442	-	-	-	-	-	-	124,134,442
Balances at banks and financial institutions	191,629,137	-	-	-	-	-	-	191,629,137
Loan at fair value	5,077,573	-	-	-	-	-	-	5,077,573
Direct credit facilities - Net	57,262,636	75,237,877	164,668,425	159,265,991	47,389,577	53,148,287	264,458,242	821,431,035
Financial assets at amortized cost	17,965,360	-	-	-	-	-	-	17,965,360
Other assets	-	-	-	-	-	-	4,489,174	4,489,174
Total as at December 31, 2019	**396,069,148**	**75,237,877**	**164,668,425**	**159,265,991**	**47,389,577**	**53,148,287**	**268,947,416**	**1,164,726,721**

	Financial	Industrial and tourism	Trade	Real estate	Securities	Government and public sector	Others	Total
December 31, 2018								
Cash and balances at Palestine Monetary Authority	111,968,882	-	-	-	-	-	-	111,968,882
Balances at banks and financial institutions	160,803,286	-	-	-	-	-	-	160,803,286
Direct credit facilities - Net	23,255,258	75,409,816	168,715,270	97,173,869	67,543,097	25,225,150	261,604,662	718,927,122
Financial assets at amortized cost	18,453,012	-	-	-	-	-	-	18,453,012
Other assets	-	-	-	-	-	-	3,685,186	3,685,186
Total as at December 31, 2018	**314,480,438**	**75,409,816**	**168,715,270**	**97,173,869**	**67,543,097**	**25,225,150**	**265,289,848**	**1,013,837,488**

Notes to the Financial Statements
(All amounts are in US Dollars)

Liquidity risk
Liquidity risk refers to the risk arising from the probability of the Bank being unable to raise adequate funds in any geographical region, currency and time, to meet its obligations when they are due, or to finance its activities without bearing high costs or incurring losses because of resorting to:
1. Selling Bank assets at low prices; leading to a decrease in the expected returns and the financial profits of the Bank.
2. Acquiring high-cost obligations in order to meet its commitments, which would lead to an increase in the costs and a consequent decrease in the expected profits of the Bank.

The impact of a liquidity risk is identified by ascertaining the extent of the liquidity of its assets and the ability of the Bank to convert liquid and semi-liquid assets into cash with the least amount of losses if the prices decrease. The Bank should provide the assets that can be sold at a price that is close to its fair value. Accordingly, the liquidity risk which the Bank may be subject to can be divided into the following:
A- Funding Liquidity Risk: the inability of the Bank to convert assets into cash such as accounts receivable, or obtain financing to meet commitments
B- Market Liquidity Risk: the inability of the Bank to sell assets in the market or the sale of these assets at a large financial loss due to the poor liquidity or demand in the market.

The treasury and Investment department is responsible for managing the Bank's liquidity, while the Asset and Liability Committee (ALCO) manages, measures and monitors the liquidity risk which are governed by pre-set policies and procedures as well as the Contingency Funding Plan. The Committee is tasked with monitoring and controlling liquidity and ensuring the optimum strategic distribution of the Bank assets and liabilities, whether in the on/off-statement of financial position items of it in coordination with the head of Treasury and Investment Department. The management of liquidity risk is conducted within the following group of inputs:

1. A set of policies and procedures approved by the committees which determine principles, definition, management, measurement and monitoring of liquidity risk.
2. Contingency Funding Plan, which includes:
   a. Specific procedures for liquidity contingency management.
   b. A specialized committee for liquidity contingency management.
   c. Liquidity Contingency Plan.
   d. Analysis of the liquidity position of the Bank based on the following liquidity reports:
   - Duration gap analysis of assets and liabilities.
   - Legal liquidity ratio, liquidity according to maturity ladder (in US Dollars and foreign currencies).
   - Customers Deposits (in US Dollars and foreign currencies)
   - Liquidity Indicators Report
   - Stress testing

The Treasury and Investment Department diversifies funding sources and matches its maturity dates, and maintains sufficient liquid assets, in order to mitigate liquidity risk. Accordingly, this is accomplished through:

Notes to the Financial Statements
(All amounts are in US Dollars)

Analysis and monitoring of assets and liabilities maturity dates: the Bank examines the liquidity of its assets and liabilities as well as any changes that may occur on a daily basis. Through the Asset and Liability Committee, the Bank seeks to achieve a balance between the maturity dates of the assets and liabilities and monitors the gaps in relation to those specified by the policies of the Bank.

Liquidity Contingency Plan: Assets and Liabilities Risk Management Committee submits its recommendations regarding the liquidity risk management and its procedures and sets necessary orders to apply the effective monitoring controls and issues reports regarding liquidity risk and the ability to adhere to the policies and controls. In addition to providing analytical resources to top management including monitoring all the technical updates related to the measurements and liquidity risk and its application.

Geographical and sectorial distribution: the assets and liabilities of the Bank are distributed regularly into local and foreign investments depending on more than one financial and capital market. The facilities are also distributed among several sectors and geographical regions while maintaining a balance between providing customer and corporate credit.
Furthermore, the Bank seeks to diversify the sources of funding and their maturity dates.

Cash reserves at the banking monitoring authorities: The Bank maintains a statutory cash reserve at the banking monitoring authorities amounting to USD 87,894,404.

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Notes to the Financial Statements
(All amounts are in US Dollars)

The following are details of the (undiscounted) assets and liabilities of the Bank based on the remaining period to maturity dates as at December 31, 2019 and 2018.

December 31, 2019	Up to 1 month	More than one month up to 3 months	More than 3 months up to 6 months	More than 6 months up to one year	More than one year up to 3 years	More than 3 years	Without maturity	Total
Assets								
Cash and balances at Palestine Monetary Authority	242,456,505	-	-	-	-	-	-	242,456,505
Balances at banks and financial institutions	161,365,063	30,718,035	-	-	-	-	-	192,083,098
Financial assets at fair value through the statement of income	-	-	-	-	-	-	86,340	86,340
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	8,189,255	8,189,255
Loan at fair value	-	-	-	-	5,686,882	-	-	5,686,882
Direct credit facilities - Net	91,384,125	58,832,869	82,754,031	141,442,199	227,086,791	243,553,333	-	845,053,348
Financial assets at amortized cost	-	4,231,311	-	-	10,734,048	3,000,001	-	17,965,360
Investment in associate	-	-	-	-	-	-	1,510,311	1,510,311
Other assets	-	-	-	-	12,559,439	5,222,811	-	17,782,250
Deferred tax assets	-	-	-	-	-	2,361,598	-	2,361,598
Rights of use of assets	-	-	-	-	-	-	17,663,603	17,663,603
Intangible assets	-	-	-	-	-	1,993,690	1,909,999	3,903,689
Projects under construction	-	-	-	-	-	-	5,966,349	5,966,349
Property and equipment - Net	-	-	-	-	-	-	25,568,216	25,568,216
Total assets	495,205,693	93,782,215	82,754,031	141,442,199	256,067,160	256,131,433	60,894,073	1,386,276,804
Liabilities								
Palestine Monetary Authority deposits	30,000,000	-	-	-	57,858,600	-	-	87,858,600
Banks and financial institutions' deposits	6,181,369	13,638,244	-	-	-	-	-	19,819,613
Customers' deposits	732,665,576	67,407,262	45,412,956	96,906,206	10,778,845	4,368,497	-	957,539,342
Cash margins	10,119,005	6,514,590	9,163,391	15,661,958	25,145,422	26,968,771	-	93,573,137
Tax provision	-	-	-	3,364,323	-	-	-	3,364,323
Borrowed funds	-			213,645				213,645
Other liabilities	19,362,179	-	-	10,829,238	2,261,891	-	-	32,453,308
Subordinated loans	312,500	625,000	937,500	1,875,000	7,500,000	7,500,000	-	18,750,000
Sundry provisions	-	-	-	-	6,594,549	-	-	6,594,549
Lease liabilities	96,102	193,245	290,648	585,982	3,684,551	17,632,835	-	22,483,363
Total liabilities	**798,736,731**	**88,378,341**	**55,804,495**	**129,436,352**	**113,823,858**	**56,470,103**	**-**	**1,242,649,880**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**117,525,793**	**117,525,793**
Total liabilities and shareholders' equity	**798,736,731**	**88,378,341**	**55,804,495**	**129,436,352**	**113,823,858**	**56,470,103**	**117,525,793**	**1,360,175,673**
Gap in financial statements	**(303,531,038)**	**5,403,874**	**26,949,536**	**12,005,847**	**142,243,302**	**199,661,330**	**(56,631,720)**	**26,101,131**
Cumulative Gap in liquidity risk	**(303,531,038)**	**(298,127,164)**	**(271,177,628)**	**(259,171,781)**	**(116,928,479)**	**82,732,851**	**26,101,131**	**-**

Notes to the Financial Statements
(All amounts are in US Dollars)

December 31, 2018	Up to 1 month	More than one month up to 3 months	More than 3 months up to 6 months	More than 6 months up to one year	More than one year up to 3 years	More than 3 years	Without maturity	Total
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 the statement of income	-	-	-	-	-	-	90,506	90,506
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	5,663,480	5,663,480
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 amortized cost	-	1,407,833	6,357,113	-	8,918,066	1,770,000	-	18,453,012
Investment in associate	-	-	-	-	-	-	1,433,126	1,433,126
Other assets	24,297,050	46,476	-	9,542,044	2,188,218	771,155	-	36,844,943
Differed tax assets							1,066,727	1,066,727
Intangible assets	-	-	-	2,360,640	-	-	2,415,060	4,775,700
Projects under construction	-	-	-	-	-	-	3,718,633	3,718,633
Property and equipment - Net	-	-	-	-	-	-	30,225,404	30,225,404
Total assets	**443,189,052**	**52,939,487**	**61,333,263**	**56,435,024**	**70,374,462**	**484,140,904**	**44,612,936**	**1,213,025,128**
Liabilities								
Palestine monetary authority deposits	40,576,000	-	-	-	-	-	-	40,576,000
Banks and financial institutions' deposits	52,023,352	13,988,500	-	-	-	-	-	66,011,852
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)**	**(141,529,657)**	**(7,594,622)**	**430,991,519**	**(66,830,173)**	**-**
Cumulative Gap in liquidity risk	**33,657,139**	**(118,049,979)**	**(215,037,067)**	**(356,566,724)**	**(364,161,346)**	**66,830,173**	**-**	**-**

Notes to the Financial Statements
(All amounts are in US Dollars)

Liquidity Coverage:
In 2019, 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, 2019:

	2019		2018	
	Value in thousands before applying discount rates/ flows (average)	Value in thousands after applying discount rates/ flows (average)	Value in thousands before applying discount rates/ flows (average)	Value in thousands after applying discount rates/ flows (average)
High quality liquid stocks				
Total high-quality assets cash outflows		242,498		
Retail deposits Including deposits of small institutions:				
(A) Stable deposits	320,495	16,025	310,258	15,513
(B) less stable deposits;	263,287	32,340	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	309,257	153,254		
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	70,603	70,603		
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 Cash flows	27,462	14,220	-	288,992
Secured lending		289,514		
Cash flows from regular loans		16,633	38,654	19,327
Other Inter-contracted cash flows	33,267	70,603	48,700	48,700
Total cash Inflows	70,603	254,781	247,949	68,027
Total assets of high quality		242,499		252,851
Net cash outflow		72,378		220,965
Liquidity Ratio (%)		335%		114%

Notes to the Financial Statements
(All amounts are in US Dollars)

Net fixed financing 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, 2019 is as follows:

Net fixed financing ratio (NSFR)	**2019**	**2018**
Numerator of the Percentage	**Value in thousand dollars Total value (after applying stable financing transactions)**	**Value in thousand dollars Total value (after applying stable financing transactions)**
Regulatory capital	129,918	202,173
Retail deposits and small (stable) institutions	309,138	316,811
Retail deposits and small-scale institutions (less stable)	364,262	340,892
Secured and unsecured financing (deposits)	144,604	123,277
Derivatives on the liabilities side after derivatives are settled on the asset side	57,859	-
Other categories of obligations (not included In the above categories)	-	-
Total stable funding available	**1,005,781**	**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:	2,353	-
Loans:	616,710	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	4,767	704
Unquoted investments other than the above	16,088	16,309
Investments listed other than the above	-	2,822
Non-performing loans	42,110	30,949
All other assets	95,436	103,728
Unconditional and unconditional credit and liquidity facilities	1,373	1,251
Other potential future financing commitments:	4,519	2,305
Total stable funding required	**783,356**	**757,385**
Net Fixed Financing Ratio (NSFR)	**128%**	**130%**

Notes to the Financial Statements
(All amounts are in US Dollars)

Market Risk

Market Risk is the risk of fluctuations and changes in the fair value or the cash flow of financial instruments, due to changes in market prices such as interest rates, exchange rates, and stock prices. Market risk arises from open positions in interest rates, currency rates and equity and security investments. These risks are monitored through specific policies and procedures by specialized committees and concerned business units. The risks include the following:

1. Interest Rate Risk
2. Exchange Rate Risk
3. Equity Price Risk

The Bank manages the expected market risk by adopting financial and investment policies within a specific strategy, and through the Assets and Liabilities Committee, which is tasked with the supervision of market risk and providing advice regarding the acceptable risks and the policy that is being followed. The Market Risk Unit has been established and staffed by qualified and trained personnel to manage this type of risk according to the following:

1. Policies and procedures that are approved by the Board of Directors and the Palestine Monetary authority (PMA).
2. Market Risk Policy that includes principles of identifying, managing, measuring and monitoring this type of risk and having it approved by the relevant committees.
3. Monitoring reports for managing and monitoring market risk.
4. Developing tools and measures to manage and monitor market risk through:

a. Sensitivity Analysis
b. Basis Point Analysis
c. Value at Risk (VaR)
d. Stress Testing
e. Stop-Loss Limit Reports
f. Monitoring the Bank's investment limits
g. Monitoring the Bank's investment portfolio at fair value through other comprehensive income and conducting revaluations of the portfolio on a regular basis.

5. The Middle Office Unit is tasked with monitoring, on a daily basis, all the investment limits in the money market and the foreign exchange transactions.

1. Interest rate risk

Interest rate risk arises from the possible impact of changes in interest rates on the Bank's profits or the fair value of financial instruments. The Bank is exposed to interest rate risk due to the possible interest rate mismatch or gap between assets and liabilities valued at different time intervals, or the revision of the interest rates at a given time interval. The Bank manages these risks by reviewing the interest rates on assets and liabilities on a regular basis.

The Assets and Liabilities Management Policy includes limits for interest rate sensitivity. The Asset and Liability Committee evaluates the interest rate risk through periodic meetings and examines the gaps in the maturities of assets and liabilities and the extent by which it is affected by the current and expected interest rates, while comparing it with the approved limits.

Notes to the Financial Statements
(All amounts are in US Dollars)

Interest Rate Risk Reduction Methods:
The Asset and Liability Committee, through periodic meetings convened for this purpose, evaluates the assets and liabilities maturity gaps, and the extent of their exposure to the impacts of current and expected interest rates are examined. In addition, solutions are proposed to reduce the impact of these risks.
Balancing due dates of assets and liabilities; the management of the Bank seeks to harmonize the impact of interest rates changes within the assets and liabilities maturity categories to mitigate any negative impact that may arise from fluctuations in interest rates.

Interest Rate Gaps:
The Bank mitigates gaps in interest rates through a circular that adjusts interest rates on its assets and liabilities that links and balances the maturities and interests.

Interest Rate risks:
The sensitivity of statement of income is represented by the effect of the possible expected changes in interest rates on the Bank's profits for one year. It is calculated based on the financial assets and liabilities that carry a variable interest rate as at December 31, 2019 and 2018:

	2019	
Currency	Increase in the interest rate %	Sensitivity of interest income (profit and loss)
USD	1	(518,146)
JOD	1	(126,282)
ILS	1	1,511,517
Euro	1	83,092
Other currencies	1	64,807

	2018	
Currency	Increase in the interest rate %	Sensitivity of interest income (profit and loss)
USD	1	271,348
JOD	1	(64,760)
ILS	1	(1,484,668)
Euro	1	(20,391)
Other currencies	1	(28,734)

Notes to the Financial Statements
(All amounts are in US Dollars)

The following analysis shows interest rate re-pricing or maturity dates, whichever is earlier:

31-Dec-19	Less than 1 month	1 - 3 months	3 - 6 months	6 -12 months	1 - 3 years	3 years or more	Non-interest bearing	Total
Assets								
Cash and balances at Palestine Monetary Authority	-	-	-	-	-	-	242,456,505	242,456,505
Balances at banks and financial institutions	80,542,977	30,264,071	-	-	-	-	80,822,089	191,629,137
Financial assets at fair value through the statement of income	-	-	-	-	-	-	86,340	86,340
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	8,189,255	8,189,255
Loan at fair value	-	-	-	-	5,077,573	-	-	5,077,573
Direct credit facilities - Net	593,390,887	34,107,121	43,670,027	58,512,561	37,235,579	23,595,680	-	790,511,855
Financial assets at amortized cost	-	4,231,311	-	-	10,734,048	3,000,001	-	17,965,360
Investment in associate	-	-	-	-	-	-	1,510,311	1,510,311
Other assets	-	-	-	-	-	-	17,782,250	17,782,250
Deferred tax assets	-	-	-	-	-	-	2,361,598	2,361,598
Rights of use of assets	-	-	-	-	-	-	17,663,603	17,663,603
Intangible assets	-	-	-	-	-	-	3,903,689	3,903,689
Projects under construction	-	-	-	-	-	-	5,966,349	5,966,349
Property and equipment - Net	-	-	-	-	-	-	25,568,216	25,568,216
Total assets	**673,933,864**	**68,602,503**	**43,670,027**	**58,512,561**	**53,047,200**	**26,595,681**	**406,310,205**	**1,330,672,041**
Liabilities								
Palestine Monetary Authority deposits	30,000,000	-	-	-	57,858,600	-	-	87,858,600
Banks and financial institutions' deposits	5,641,748	13,357,731	-	-	-	-	412,483	19,411,962
Customers' deposits	717,478,321	66,045,643	44,383,284	94,693,194	10,515,946	4,261,947	-	937,378,335
Cash margins	10,749,980	6,878,089	9,615,333	16,137,405	23,374,204	26,818,126	-	93,573,137
Tax provision	-	-	-	-	-	-	3,364,323	3,364,323
Borrowed funds	-	-	-	213,645	-	-	-	213,645
Other liabilities	-	-	-	-	-	-	32,453,308	32,453,308
Subordinated loans	-	-	-	-	-	15,000,000	-	15,000,000
Sundry provisions	-	-	-	-	-	-	6,594,549	6,594,549
Lease liabilities	-	-	-	-	-	17,298,389	-	17,298,389
Total liabilities	**763,870,049**	**86,281,463**	**53,998,617**	**111,044,244**	**91,748,750**	**63,378,462**	**42,824,663**	**1,213,146,248**
Shareholders' equity	-	-	-	-	-	-	**117,525,793**	**117,525,793**
Total liabilities and shareholders' equity	**763,870,049**	**86,281,463**	**53,998,617**	**111,044,244**	**91,748,750**	**63,378,462**	**160,350,456**	**1,330,672,041**
Interest rate sensitivity gap	**(89,936,185)**	**(17,678,960)**	**(10,328,590)**	**(52,531,683)**	**(38,701,550)**	**(36,782,781)**	**245,959,749**	-
Cumulative interest rate sensitivity gap	**(89,936,185)**	**(107,615,145)**	**(117,943,735)**	**(170,475,418)**	**(209,176,968)**	**(245,959,749)**	-	-

Notes to the Financial Statements
(All amounts are in US Dollars)

December 31, 2018	Less than 1 month	1 - 3 months	3 - 6 months	6 -12 months	1 - 3 years	3 years or more	Non-interest bearing	Total
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 the 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 other 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	-	-	-	-	-	-	1,433,126	1,433,126
Property and equipment - Net	-	-	-	-	-	-	30,225,404	30,225,404
Projects under construction	-	-	-	3,718,633	-	-	-	3,718,633
Intangible assets	-	-	-	2,360,640	-	-	2,415,060	4,775,700
Deferred tax assets	-	-	-	-	-	-	1,066,727	1,066,727
Other assets	24,297,050	46,476	-	8,475,317	2,188,218	1,446,911	390,971	36,844,943
Total assets	**443,189,052**	**52,939,487**	**61,333,263**	**59,086,930**	**70,374,462**	**484,816,660**	**41,285,274**	**1,213,025,128**
Liabilities								
Banks and financial institutions deposits and PMA 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**
Interest rate sensitivity gap	**33,657,139**	**(151,707,118)**	**(96,987,088)**	**(138,877,751)**	**(7,594,622)**	**431,667,275**	**(70,157,835)**	**-**
Cumulative interest rate sensitivity gap	**33,657,139**	**(118,049,979)**	**(215,037,067)**	**(353,914,818)**	**(361,509,440)**	**70,157,835**	**-**	**-**

Notes to the Financial Statements
(All amounts are in US Dollars)

2. Currency Risks
The currency risk is the risk of change in the value of financial instruments due to change in exchange rates. The US Dollars is the base currency of the Bank. The Board of Directors imposes limits for the financial position of each currency at the Bank. The foreign currency positions are monitored on a daily basis.

The Bank's investment policy states that it is possible to hold positions in major foreign currencies, provided that they do not exceed 5% of shareholders' equity for each currency, and that the gross foreign currencies position does not exceed 15% of shareholders equity. Also, the foreign currency positions are monitored on a daily basis.

The following table illustrates the possible effect on the statement of income as a result of fluctuations in exchange rates against the US Dollars, assuming that all other variables remain constant:

	2019	
	Change in currency exchange rate	Effect on profit and loss
Currency	%	
JOD	1	(60,089)
ILS	1	1,486,869
Euro	1	75,460
Other	1	78,978

	2018	
	Change in currency exchange rate	Effect on profit and loss
Currency	%	
JOD	1	57,640
ILS	1	906,539
Euro	1	47,542
Other	1	21,859

Notes to the Financial Statements
(All amounts are in US Dollars)

Concentration in Foreign currency risk:

	USD	JOD	ILS	Euro	Other	Total
December 31, 2019						
Assets						
Cash and balances at Palestine Monetary Authority	70,403,908	29,420,411	138,191,702	4,440,484	-	242,456,505
Balances at banks and financial institutions	27,422,747	47,305,470	85,729,285	21,032,041	10,139,594	191,629,137
Financial assets at fair value through the statement of income	25,599	60,741	-	-	-	86,340
Financial assets at fair value through other comprehensive income	1,573,923	5,201,452	-	-	1,413,880	8,189,255
Loan at fair value	-	5,077,573	-	-	-	5,077,573
Direct credit facilities - Net	312,210,834	104,804,957	366,395,047	7,101,017	-	790,511,855
Financial assets at amortized cost	13,734,049	4,231,311	-	-	-	17,965,360
Investment in associate	1,510,311	-	-	-	-	1,510,311
Other assets	(3,452,067)	8,301,820	12,900,756	28,458	3,283	17,782,250
Deferred tax assets	2,361,598	-	-	-	-	2,361,598
Rights of use of assets	12,333,581	5,222,811	107,211	-	-	17,663,603
Intangible assets	3,877,830	25,859	-	-	-	3,903,689
Projects under construction	5,966,349					5,966,349
Property and equipment - Net	24,842,972	485,824	101,854	137,566	-	25,568,216
Total assets	**472,811,634**	**210,138,229**	**603,425,855**	**32,739,566**	**11,556,757**	**1,330,672,041**
Liabilities						
Palestine Monetary Authority deposits	30,000,000	-	57,858,600	-	-	87,858,600
Banks and financial institutions' deposits	7,011,221	11,988,715	411,350	667	9	19,411,962
Customers' deposits	394,173,706	164,496,156	351,617,812	23,502,907	3,587,754	937,378,335
Cash margins	41,559,091	21,905,501	29,276,616	760,814	71,115	93,573,137
Tax provision	3,158,346	-	205,977	-	-	3,364,323
Borrowed funds	213,645	-	-	-	-	213,645
Other liabilities	6,778,379	9,411,501	15,334,191	929,188	49	32,453,308
Subordinated loans	15,000,000	-	-	-	-	15,000,000
Sundry provisions	6,587,055	7,494	-	-	-	6,594,549
Lease liabilities	12,633,763	4,630,226	34,400	-	-	17,298,389
Total liabilities	**517,115,206**	**212,439,593**	**454,738,946**	**25,193,576**	**3,658,927**	**1,213,146,248**
Net concentration in financial position	**(44,303,572)**	**(2,301,364)**	**148,686,909**	**7,545,990**	**7,897,830**	**117,525,793**
Contingent liabilities outside the financial position	**(178,547,331)**	**-**	**282,152,454**	**6,151,522**	**(18,116,599)**	**91,640,046**

Notes to the Financial Statements
(All amounts are in US Dollars)

	USD	JOD	ILS	Euro	Other	Total
December 31, 2018						
Assets						
Cash and balances with Palestine Monetary Authority	64,020,049	56,645,892	129,210,781	2,270,084	-	252,146,806
Balances with banks and financial institutions	20,716,191	20,136,128	96,231,916	20,593,479	3,125,572	160,803,286
Financial assets through the statement of income	24,000	66,506	-	-	-	90,506
Financial assets at fair value through other comprehensive income	1,538,471	2,763,724	-	-	1,361,285	5,663,480
Direct credit facilities - Net	319,494,351	117,675,889	252,681,187	7,952,078	-	697,803,505
Financial assets at amortized cost	10,688,067	7,764,945	-	-	-	18,453,012
Investment in associate	1,433,126	-	-	-	-	1,433,126
Other assets	9,286,088	3,107,626	24,417,228	32,679	1,322	36,844,943
Deferred tax assets	1,066,727	-	-	-	-	1,066,727
Intangible assets	4,749,841	25,859	-	-	-	4,775,700
Projects under construction	2,493,173	666,620	558,840	-	-	3,718,633
Property and equipment - Net	30,044,844	180,560	-	-	-	30,225,404
Total assets	**465,554,928**	**209,033,749**	**503,099,952**	**30,848,320**	**4,488,179**	**1,213,025,128**
Liabilities						
Palestine Monetary Authority deposits	14,000,000	-	26,576,000	-	-	40,576,000
Banks and financial institutions deposits	46,568,050	19,322,987	42,362	78,445	8	66,011,852
Customers' deposits	355,216,070	164,430,403	337,502,782	17,231,633	3,297,644	877,678,532
Cash margins	38,600,629	19,545,903	22,639,467	576,170	87,091	81,449,260
Tax provision	1,763,483	-	189,221	-	-	1,952,704
Borrowed funds	294,778	-	-	-	-	294,778
Other liabilities	10,187,866	3,619,955	12,641,702	1,105,440	236	27,555,199
Sundry provision	6,056,200	7,494	-	-	-	6,063,694
Total liabilities	**472,687,076**	**206,926,742**	**399,591,534**	**18,991,688**	**3,384,979**	**1,101,582,019**
Net concentration in financial position	**(7,132,148)**	**2,107,007**	**103,508,418**	**11,856,632**	**1,103,200**	**111,443,109**
Contingent liabilities outside the financial position	**38,293,284**	**998,040**	**20,349,987**	**-**	**11,469,558**	**71,110,869**

Notes to the Financial Statements
(All amounts are in US Dollars)

3. 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 Palestinian and Jordanian Securities Exchange.

The following table shows the unrealized gain or loss arising from possible changes in equity prices by 5% with all other effects held constant:

	Changing in indicator	Effect on profit and loss	Effect on equity
31-Dec-19			
Financial assets at fair value through other comprehensive income			
Quoted	5%	-	369,346
Financial assets at fair value through the statement of income	5%	4,317	-
31-Dec-18			
Financial assets at fair value through other comprehensive income			
Quoted	5%	-	243,057
Financial assets at fair value through the statement of income	5%	4,525	-

Notes to the Financial Statements
(All amounts are in US Dollars)

4. Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failure of internal processes, human factor or systems, or resulting from external events. From a management perspective, this definition also includes legal risk, strategic risk and reputational risk for the purposes of managing these types of risk.

Due to the continuous change in the working environment and the management's desire to remain in-sync with all the technological advancements and to introduce new banking services and products, Operational Risk Policy has been designed, developed and communicated to the Bank's departments, branches and its subsidiary, whereby the main principles are included and the policy's objectives are aligned with the Bank's strategic objectives.

As a result, the Bank's strategies has been implemented to enhance the role of operational risk management which is represented by Operational Risk Management Framework, which is communicated to all the bank's divisions and branches. This requires determining, evaluating, supervising and rendering the operational risk to each branch separately as outlined in Basel committee accords. Self-evaluation of risk management is done through the following:

1. Holding "Workshops" based on adopted analysis procedures and audit reports thus identifying risks, controls, and determine the regulatory gap through the matrix of risk, In this context, a model of "regulatory examinations" organized by the managers (or representatives) of the units/departments/ branches.
2. Building key risk indicator to cover the Bank and its branches.
3. Provide a mechanism to collect operational events and calculate expected losses based on the events.
4. Supervising over the renovation and development of a business continuity plan in the Bank.

From this point, the continuity and effectiveness of operational risk management is an integral part of the responsibilities of all those concerned in the applications in the Bank and on all levels through:

1. Adherence to regulatory examinations conducted by their schedules and without delay.
2. Showing the result of regulatory tests with transparency and accuracy.
3. Reporting and disclosing any losses or operating events without delay or hesitation.
4. Adopt and implement the recommendations "Remedial Actions/ Recommendations/ Mitigations" that are put forward by the operational risk unit, that would mitigate the risks identified through workshops/ Reporting of events or operating losses/ Regulatory examinations.
5. The role of the board of directors, Risk and compliance committee, senior management, Audit department is to activate the importance of operational risk activities and make it an integral part of the daily activities.

To ensure that the above is implemented, the operational risk management unit is keen on spreading knowledge and increasing awareness about operational risk management by conducting training courses and workshops for all Bank departments and by creating an effective work environment between the operational risk management unit and the concerned parties from each department. In addition, the operational risk management unit is responsible for raising reports to the Internal Risks Committee concerning any short comings or violations. This will ultimately lead to the development of risk profile at each department / unit level and the Bank level as a whole.

Notes to the Financial Statements
(All amounts are in US Dollars)

In addition to the above, the operational risk management unit is concerned with the following:
1. Reviewing the Bank's internal policies and procedures to highlight the associated risks and work on minimizing such risks prior to implementation.
2. Conducting stress testing and observing the results.
3. Internal assessment of capital with respect to operational risks in accordance with PMA instructions.
4. Continuous development of the systems used to manage.
5. Continue the development of the integrated program for business continuity plans.

Information security

The responsibility of the Information Security / Risk management unit lies in ensuring security, availability and accuracy of the banks information through the following:

1. Developing an Information security program based on leading International standards (ISO 27k, PCI DSS), that is in line with the bank's strategy.
2. Providing the tools and means necessary to reduce Information security risks.
3. Developing security policies related to Information systems and resources.
4. Continuous security awareness for the bank's employees and ensuring their compliance to the security program.
5. Managing security incidents related to Information management systems and raising recommendations to top management.
6. Developing security standards for various Information systems.
7. Working on developing a business continuity plan to ensure business continuity in the event of any disaster.
8. Identifying the appropriate controls to mitigate the risks faced by the bank through analyzing various Information security risks.
9. Preparing and developing security measures related to Information systems security incidents.
10. Managing Information systems security incidents and raising relevant recommendations to top management.
11. Ensuring the security and Integrity of hardware, software and various applications through risk analysis and periodic testing to ensure safe use of these resources.

5. 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 of failure to comply with the laws and regulations.

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (50) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	Up to 1 year	More than one year	Total
December 31, 2019			
Assets			
Cash and balances with Palestine Monetary Authority	242,456,505	-	242,456,505
Balances with banks and financial institutions	191,629,137	-	191,629,137
Financial assets through the statement of income	-	86,340	86,340
Financial assets at fair value through other comprehensive income	-	8,189,255	8,189,255
Loans at Fair value	-	5,077,573	5,077,573
Direct credit facilities - Net	366,483,840	424,028,015	790,511,855
Financial assets at amortized cost	4,231,311	13,734,049	17,965,360
Investment in associate	-	1,510,311	1,510,311
Other assets	-	17,782,250	17,782,250
Deferred tax assets	-	2,361,598	2,361,598
Rights of use assets	-	17,663,603	17,663,603
Intangible assets	-	3,903,689	3,903,689
Projects under construction	-	5,966,349	5,966,349
Property and equipment - Net	-	25,568,216	25,568,216
Total assets	**804,800,793**	**525,871,248**	**1,330,672,041**
Liabilities			
Palestine Monetary Authority deposits	30,000,000	57,858,600	87,858,600
Banks and financial institutions deposits	19,411,962	-	19,411,962
Customers' deposits	937,378,335	-	937,378,335
Cash margins	43,380,807	50,192,330	93,573,137
Tax provision	3,364,323	-	3,364,323
Borrowed funds	213,645	-	213,645
Other liabilities	30,191,417	2,261,891	32,453,308
Subordinated loans	-	15,000,000	15,000,000
Sundry provision	-	6,594,549	6,594,549
Lease Liability	1,153,224	16,145,165	17,298,389
Total liabilities	**1,065,093,713**	**148,052,535**	**1,213,146,248**
Shareholders' equity	-	117,525,793	117,525,793
Total liabilities and shareholders' equity	**1,065,093,713**	**265,578,328**	**1,330,672,041**
Maturity gap	**(260,292,920)**	**260,292,920**	**-**

Notes to the Financial Statements
(All amounts are in US Dollars)

	Up to 1 year	More than one year	Total
December 31, 2018			
Assets			
Cash and balances with Palestine Monetary Authority	252,146,806	-	252,146,806
Balances with banks and financial institutions	160,803,286	-	160,803,286
Financial assets through the statement of income	-	90,506	90,506
Financial assets at fair value through other comprehensive income	-	5,663,480	5,663,480
Direct credit facilities - Net	156,935,578	540,867,927	697,803,505
Financial assets at amortized cost	7,764,946	10,688,066	18,453,012
Investment in associate	-	1,433,126	1,433,126
Other assets	-	36,844,943	36,844,943
Deferred tax assets		1,066,727	1,066,727
Intangible assets	-	4,775,700	4,775,700
Projects under construction	-	3,718,633	3,718,633
Property and equipment - Net	-	30,225,404	30,225,404
Total assets	**577,650,616**	**635,374,512**	**1,213,025,128**
Liabilities			
Palestine Monetary Authority deposits	40,576,000	-	40,576,000
Banks and financial institutions deposits	66,011,852	-	66,011,852
Customers' deposits	806,492,844	71,185,688	877,678,532
Cash margins	27,874,951	53,574,309	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	**970,463,550**	**131,118,469**	**1,101,582,019**
Shareholders' equity	-	111,443,109	111,443,109
Total liabilities and shareholders' equity	**970,463,550**	**242,561,578**	**1,213,025,128**
Gap in financial statements	**(392,812,934)**	**392,812,934**	**-**

Notes to the Financial Statements
(All amounts are in US Dollars)

NOTE (51) OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The disclosures set out in the following tables include financial assets that are subject to an enforceable netting arrangement or similar agreement (repurchase agreement) that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction.

	Gross exposure subject to offsetting in the statement of financial position	Value of received collateral	Net exposure
31-Dec-19			
Loan at fair value	5,077,573	5,458,392	-
Direct credit facilities - Net	821,431,035	480,238,283	341,192,752
	826,508,608	**485,696,675**	**341,192,752**
31-Dec-18			
Direct credit facilities - Net	**718,927,122**	**411,503,711**	**307,423,411**

NOTE (52) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to comply with the financial statement's presentation for the current year. Management believes that the current period presentation provides more meaningful information to the readers of the financial statements.

NOTE (53) SUBSEQUENT EVENTS

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting subsequent event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Bank. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Bank's IFRS9 estimates of expected credit loss provisions in 2020.

In addition to the above, the Palestinian Monetary Authority, in its instructions No. (5/2020) dated March 15, 2020, decided to take a package of precautionary measures to contain the negative repercussions of the (COVID-19) virus on the performance of the local economy, and these measures are summarized by postponing the monthly / periodical installments of all borrowers for the next four months and for the next six months for the tourism and hospitality sector. Lending institutions are prohibited from collecting any additional fees, commissions or interest on deferred installments, in addition to allowing banks to direct new credit to small and medium enterprises and startups in a manner that contributes to maintaining the continuity of the economic cycle, and provide credit to the health services sector due to its direct impact on the empowerment of the private sector to respond to the virus. As well as the commitment of the lending companies to pay all the salaries of their employees completely.

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Annual Report | 2019