



unrwa  
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60  
YEARS

united nations relief and  
works agency for palestine  
refugees in the near east

unrwa west bank field office  
sheikh jarrah  
p.o. box 19149  
jerusalem

t +972 2 5890221

f +972 2 5890230

www.unrwa.org

## CERTIFICATION OF THE FINANCIAL STATEMENTS

### Microfinance Department

The financial statements and notes from page 2 to 32 were prepared by the Director, Microfinance Department and the Chief of Finance (MD) and certified by UNRWA Director of Finance. The accompanying notes on pages 7 to 31 are an integral part of the financial statements.

Alex Pollock  
Director Microfinance Department

Wissam Saeed  
Chief of Finance (MD)

Pursuant to financial regulation 11.4 and 12.1, I have the honour to submit UNRWA's Microfinance Department (MD) Financial Statements for the year ended 31 December 2009.

I certify that all transactions have been properly recorded in the accounting records, properly reflected in the MD's financial accounts and appended statements, which I hereby certify as accurate and representative of the MD's operating activities and the financial state of affairs as of 31 December 2009.

**Director of Finance  
Bernard Laufenberg**

مكتب الضفة الغربية الأقليمي  
الشيخ جراح  
ص.ب 19149  
القدس

هـ ٢٢١-٥٨٩-٢٢٢ ٢٢٢٢٢٢

ف ٢٢٠-٥٨٩-٢٢٢ ٢٢٢٢٢٢

وكالة الأمم المتحدة لإغاثة  
وتشغيل اللاجئين الفلسطينيين  
في الشرق الأدنى



**United Nations Relief and Works Agency  
For Palestine Refugees in the Near East**

**Microfinance Department**

**West Bank, Gaza, Jordan and Syria**

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**Financial Statements**

**31 December 2009**

# **United Nations Relief and Works Agency For Palestine Refugees in the Near East**

## **Microfinance Department**

**West Bank, Gaza, Jordan and Syria.**

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**United Nations Relief Works Agency**  
**For Palestine Refugees in the Near East**  
*Microfinance Department*

**Statement of Financial Position**  
As of 31 December 2009

Assets	Note	2009 USD	2008 USD
<b>Non-Current Assets</b>			
Property, Plant and Equipment	5	882,469	966,544
Loans Receivable, Net	4	1,261,519	1,119,475
		<u>2,143,988</u>	<u>2,086,019</u>
<b>Current Assets</b>			
Loans Receivable, Net	4	16,860,267	14,761,106
Pledges Receivable	8.1	270,956	192,865
Prepayments and Other Receivables		183,422	131,214
Cash and Cash Equivalents	3	9,289,724	8,226,807
		<u>26,604,370</u>	<u>23,311,992</u>
<b>Total Assets</b>		<u><u>28,748,358</u></u>	<u><u>25,398,011</u></u>
<b>Equity</b>			
Retained Earning		(5,288,209)	(6,732,765)
Fund Held For Training		121,219	74,823
Board Designated Fund/MIS System		20,209	23,428
Temporary Restricted		-	-
Loan Revolving Fund	9	22,862,698	22,815,665
<b>Total Equity ( Statement-C )</b>		<u>17,715,919</u>	<u>16,181,151</u>
<b>Non-Current Liabilities :</b>			
Retirement Staff Benefit Obligations	10	1,051,105	915,704
	2.5.b,c	<u>1,051,105</u>	<u>915,704</u>
<b>Current Liabilities :</b>			
Payables and Accruals		658,017	572,223
Bills Payable to UNRWA	6	448,318	853,933
Liability - OFID Pal Fund Trust Fund	7	8,875,000	6,875,000
<b>Total Current Liabilities</b>		<u>9,981,335</u>	<u>8,301,156</u>
<b>Total Liabilities</b>		<u>11,032,440</u>	<u>9,216,860</u>
<b>Total Equity and Liabilities</b>	12.1	<u><u>28,748,358</u></u>	<u><u>25,398,011</u></u>

**United Nations Relief Works Agency**  
**For Palestine Refugees in the Near East**  
*Microfinance Department*  
**Statement of Comprehensive Income**  
**For the Year Ended 31 December 2009**

	Note	Financial Services	Training Service	Total	
		Note 1.a	Note 1.b		
		2009	2009	2009	2008
		USD	USD	USD	USD
<i>Interest and Other Operating Income:</i>					
Interest on Loans	4.5.2	6,584,317		6,584,317	4,520,965
Accrued Interest Revenue		117,818		117,818	70,943
Interest on bank deposits and other revenues		15,858		15,858	111,107
Grants Funds for Operations	11	153,779		153,779	133,021
Other Income		88,951		88,951	93,624
Training Income		-	139,069	139,069	40,736
<i>Total Operating Revenues</i>		<u>6,960,723</u>	<u>139,069</u>	<u>7,099,792</u>	<u>4,970,396</u>
<i>Impairment Losses On Loans</i>					
Provision Expenses for Impaired Loans		(834,466)		(834,466)	(410,694)
Recoveries from Written Loans	4.5.2	505,930		505,930	844,533
<i>Net Impairment Losses on Loans</i>		<u>(328,535)</u>		<u>(328,535)</u>	<u>433,839</u>
<i>Operating Expense:</i>					
Salaries and Related Expenses		3,371,591	45,903	3,417,494	3,318,848
Special Service Contracts		269,633	28,839	298,472	278,963
Occupancy		325,616	-	325,616	277,897
Communication		146,385	898	147,283	105,379
Stationary and Supplies		313,449	7,255	320,704	182,245
Minor Equipment and Maintenance		64,088	-	64,088	15,166
Travel and Transportation		267,712	-	267,712	201,076
Depreciation		240,915	-	240,915	219,592
Program Support Cost		76,907	-	76,907	84,535
Training		84,559	9,778	94,338	111,000
Other Cost		18,179	-	18,179	16,858
<i>Total Operating Expense</i>		<u>(5,179,033)</u>	<u>92,674</u>	<u>(5,271,706)</u>	<u>(4,811,559)</u>
<i>Operating Income (Loss) for the Year</i>		<u>1,453,155</u>	<u>46,395</u>	<u>1,499,550</u>	<u>592,676</u>
<i>Gain (Loss) on Difference of Currency</i>		<u>(8,599)</u>		<u>(8,599)</u>	<u>(8,487)</u>
<i>Net Year Income ( Loss) / Year (Statement – C)</i>	12.2	<u>1,444,555</u>	<u>46,395</u>	<u>1,490,950</u>	<u>584,189</u>

See Notes to Financial Statements

**United Nations Relief Works Agency**  
**For Palestine Refugees in the Near East**  
*Microfinance Department*

**Statement of Comprehensive Income**  
**Small Microenterprise Training Programme**  
**For the year ended 31 December 2009**

	Training Service	
	<u>2009</u>	<u>2008</u>
Note	<u>USD</u>	<u>USD</u>
<i>Interest and Other Operating Income:</i>		
Training Income	139,069	40,736
<b>Total Operating Revenues</b>	<b><u>139,069</u></b>	<b><u>40,736</u></b>
<i>Operating Expense:</i>		
Salaries and Related Expenses	45,903	28,109
Special Service Contracts	28,839	20,461
Communication	898	-
Stationary and Supplies	7,255	4,365
Minor Equipment and Maintenance	-	-
Training	9,778	6,323
Other Cost	-	-
<b>Total Operating Expense</b>	<b><u>(92,674)</u></b>	<b><u>(59,258)</u></b>
<b>Operating Gain (Loss) for the Year</b>	<b>1.b</b>	<b><u>(46,396)</u></b>

See Notes to Financial Statements

**United Nations Relief Works Agency**  
**For Palestine Refugees in the Near East**  
*Microfinance Department*

**Statement of Equity**  
**For the year ended 31 December 2009**

	Retained Earning	Board Designated Fund		Temporary Restricted Fund	Revolving Loan Fund	Total
		Fund Held for Training	MIS System			
	USD	USD	USD	USD	USD	USD
Net Assets as at 1 <sup>st</sup> January 2008	(7,257,088)	93,345	30,202	404,748	21,382,070	14,653,278
Operating Loss for Year 2008 (Statement – B)	602,711	(18,522)				584,189
Adjustments to Prior Years	(78,388)					(78,388)
Additional Fund for the Period			(6,774)	1,028,847		1,022,072
Releases to Revolving Loan Fund				(1,433,595)	1,433,595	-
Net Assets at Beginning of Year 2009	(6,732,765)	74,823	23,428	-	22,815,665	16,181,151
Operating Loss for Year 2009 (Statement - B)	1,444,557	46,395				1,490,952
Additional Fund for the Period			(3,219)	47,033		43,814
Releases to Revolving Loan Fund				(47,033)	47,033	-
Net assets at end of year (Statement - A)	(5,288,882)	121,219	20,209	-	22,862,698	17,715,919

See Notes to Financial Statements

**United Nations Relief Works Agency**  
**For Palestine Refugees in the Near East**  
*Microfinance Department*  
**Statement of Cash Flows**  
**For the year ended 31 December 2009**

	2009	2008
	USD	USD
<b>Cash Flows from Operating Activities:</b>		
Contribution Received	27,386	1,500,890
Interest on Loans and Other Revenues	7,152,499	5,517,340
Loans Issued net of Collections	(3,080,578)	(6,246,319)
Cash Paid to Employees and Suppliers	(4,878,940)	(4,046,247)
Net cash utilised by operating activities	<u>(779,633)</u>	<u>(3,274,336)</u>
<b>Cash Flows from Investing Activities:</b>		
Procurement of Fixed Assets	(157,450)	(384,048)
	<u>(157,450)</u>	<u>(384,048)</u>
<b>Cash Flows from Financing Activities:</b>		
Liability to - OFID Pal Fund Trust Fund	2,000,000	4,500,000
	<u>2,000,000</u>	<u>4,500,000</u>
Restricted Cash and Banks during the period	1,826,458	2,852,075
Increase (Decrease) in Cash and Banks During the Period	(763,541)	(2,010,459)
Cash at Beginning of the Year	8,226,807	7,385,191
Cash on Hand and Deposits With Banks at the end of Year	<u>9,289,724</u>	<u>8,226,807</u>
<b>Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:</b>		
Change in Net Assets	1,526,168	1,519,385
Currency Exchange	8,599	8,487
Written Off Loans	392,734	258,245
Change in General Provisions	446,639	158,851
Depreciation	241,525	219,592
Loans Extended	(37,136,846)	(31,732,037)
Loans Collection	34,056,268	25,485,718
Decrease (Increase) in Pledges receivable	(78,091)	280,976
Decrease (Increase) in Prepaid Expenses	(52,208)	(58,299)
(Decrease) Increase in Payables and Accruals	85,794	330,411
(Decrease) Increase in Bills Payable to UNRWA	(405,615)	38,917
(Decrease) Increase in Termination Benefits Obligations	135,401	215,418
	<u>(779,633)</u>	<u>(3,274,336)</u>

See Notes to Financial Statements

**United Nations Relief and Works Agency  
For Palestine Refugees in the Near East  
Microfinance Department**

**Notes to Financial Statements  
31 December 2009**

(Amounts are expressed in US Dollars)

**1. Background**

**A- Microfinance Department**

The Microfinance Department is a department of the United Nations Relief and Works Agency for Palestine in the Near East (UNRWA). UNRWA was established by General Assembly resolution 302 (IV) of 8 December 1949 as a separate entity within the United Nations System and it began operations on 1 May 1950. The mandate of UNRWA has been renewed repeatedly, most recently by the General Assembly in its resolution A/RES/62/102 17 December 2007, when it was extended until 30 June 2011.

UNRWA reports directly to the General Assembly to which the Commissioner-General submits an annual report. A general review of UNRWA programmes and activities is undertaken on an annual basis by the ten-member Advisory Commission, which includes representatives of the Agencies donors and host authorities. The Advisory Commission has a working relationship with the Palestine Liberation Organisation.

The headquarters of the Microfinance Department is located in East Jerusalem in UNRWA's West Bank Field Office, while its credit operations are located in field offices in the West Bank, Gaza, Jordan and Syria and in 17 branches offices throughout the region. The principal place of business of the department is:

Microfinance Department  
UNRWA  
Ammunition Hill  
Zalman Sharagi Street  
P.O. Box 19149  
Sheikh Jarrah  
East Jerusalem

The Microfinance Department prepares and presents separate financial statements certified by UNRWA's Director of Finance.

Since June 1991, in the West Bank and Gaza, UNRWA's Microfinance Department (MD) has helped promote small business development, create employment, improve the income of microenterprises and reduce poverty through the establishment of a number of targeted credit products aimed at small businesses, microenterprises, women, youth, consumers and householders. Since 2003 the department has also expanded its microfinance operations to Jordan and Syria. The MD organizes its

lending activities through a revolving loan fund that serves the operations in all fields. The department supports businesses varying in size from micro-vendors, employing just one or two individuals to small industrial firms and aims to satisfy a variety of needs such as capital funding and working capital financing. It also provides non-business financial services to working class consumers and poor households. As a United Nations agency it is exempt from taxes.

The department's credit finances customers through seven credit products. These are: Microenterprise Credit (MEC); Microenterprise Credit Plus (MEC+); Solidarity Group Lending (SGL); Women's Household Credit (WHC); Small-Scale Enterprise (SSE); Consumer Lending Product (CLP); and Housing Loan Product (HLP).

The Microenterprise Credit (MEC) product is the core financial instrument of the department. This was introduced in Gaza in 1996, in the West Bank in 1998 and in Jordan and Syria in 2003. This product is designed to meet the working capital needs of the microenterprise sector that is unable to secure credit from banks and other formal financial institutions due primarily to lack of collateral. This product is retailed to both formal and informal enterprises.

The Microenterprise Credit Plus (MEC+) product is for microenterprises that have matured or developed. The owners of such enterprises often need extra financial resources with longer repayment tenors to make business investments or secure a larger pool of working capital. To meet these enterprise needs, in 2008 the department designed a new microenterprise credit plus (MEC+) product in the West Bank to provide longer term financing of older clients that had passed through three microenterprise loan cycles and for more formal enterprises that needed larger loans. This product is now retailed in West Bank, Gaza and Jordan, and will be introduced in Syria in 2010.

The Solidarity-Group Lending (SGL) product was introduced in Gaza in 1994 to enable Palestinian women to participate in the local economy. This product focuses primarily on women-based informal enterprises. The product was introduced into Syria in 2007.

The Women's Household Credit (WHC) product was developed after introducing solidarity group lending in Syria in 2007. The department redesigned and re-launched this product in mid-2008 as women's household credit (WHC). The new product is more suited to the market of women's household-based income-generating activity, which is the foremost form of women's informal microenterprise in Syria. There women's microentrepreneurship is much more domesticated and on a much smaller scale than the street-based women microentrepreneurs of Gaza. In Syria many women microentrepreneurs work on piece-work or on a putting-out basis that generates a small revenue streams that compliment other household income sources. By redesigning the product to the market need and potential of the Syrian urban market, the department was able to significantly increase its outreach to women, who use these loans to build business and household assets.

The Small-Scale Enterprise (SSE) product was the original credit instrument that the department developed in 1991. Its objective is to provide loans to new and existing small-scale enterprises. This product has been restricted in recent years due the critical economic situation facing most medium and small-scale enterprise in the occupied Palestinian territory (oPt) and very few loans are now financed at present.

The Consumer Lending Product (CLP) was established in 2002 in Gaza. This product aims to help workers and low-paid employees to purchase household assets and provide financing for education, health and family emergencies. This product was also introduced in the West Bank in 2007 and in Jordan and Syria in December 2008. The target clientele for this product are people who have a fixed or variable monthly income.

The Housing Lending Product (HLP) was introduced in Gaza in 2006 with the aim to provide financial resources to Palestine refugees to build, to improve and/or to develop their housing and living conditions. The product was launched in the West Bank in 2009.

These financial services are retailed through a network of 17 branch offices, of which seven are located in the West Bank, three in Gaza, three in Syria and four in Jordan. No new branch offices were opened in 2009, although contractual negotiations are under way to rent two new premises that will be opened in Aleppo and Damascus in early 2010.

### **B- Small Microenterprise Training Programme (SMET)**

UNRWA's MD also provides business training through its Small and Microenterprise Training (SMET) programme in Gaza. The main goal of the training programme is to contribute to the economic development of the Gaza Strip, through supporting small businesses and encouraging entrepreneurship. The programme's outreach grew in 2009. The programme has its own separated expenses and budget. The programme income is generated from trainee's fees and donor contributions as indicated in statement B1 and related notes.

To achieve this goal, the training programme aims:

- To provide a wide range of business training courses to the business community in Gaza;
- To promote an entrepreneurial spirit with requisite business skills;
- To develop a local training capacity through a team of trainers able to deliver courses using participatory, non-formal adult-education training techniques and technologies with up-to-date subject matter;
- To develop a business curriculum that is relevant to the state of the local microenterprise economy and to make training material and resources more readily available;
- To encourage trainers who have developed training skills in the programme to transfer their experience in both teaching methodology and curriculum development to the universities and vocational training institutions where they teach;
- To promote co-operation and co-ordination among institutions engaged in small and microenterprise development, through contact groups and workshops;
- To enable small businesses in the Gaza Strip to compete in regional and global markets.

To achieve these objectives, the programme includes the following activities:

1. **Business Training:** This is the core activity of the SMET programme. It provides a range of business training courses that meet the practical training needs of the small business community in Gaza. The business service model adopted pursues a demand-led approach that is relevant to the business needs of clients. The training style is participatory and based on adult learning techniques and methodologies.

2. **Start up Your Own Business:** This training programme aims to encourage new business start-ups amongst women and new graduates from technical and vocational colleges and from universities. The encouragement of entrepreneurship and self-employment is an important tool for business development and for both economic and social development.

3. **Curriculum Development:** In order to meet the goal of establishing best practice in the training process, the programme strives to incorporate relevance and participation in developing training manuals and curricula. The use of participatory and adult education techniques in developing curricula leads to the development of training courses that are most attractive to clients.

4. **Building Local Training Capacity:** The SMET programme works with a pool of more than 40 trainers who deliver almost 100 training courses. Twenty of these trainers form the core trainer pool that conducts the bulk of the courses offered. The programme continues to build a training team capable of delivering courses through participatory, non-formal adult education training techniques and technologies, with up-to-date subject matter.

The financial activities of the programme comprising training fees charged and direct costs of the programme, are presented in the separate Profit and Loss Statement for the year ended 31 December 2009.

## 2. Summary of Significant Accounting Policies and Preparation

2.1 The MD prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) using the historical cost except for the revaluation of certain financial instruments. The MD works in three countries where four different currencies are legal tender. It uses three functional currencies. In Syria it uses Syrian pounds (SYP), in Jordan it uses Jordanian dinar (JOD), in West Bank it uses Jordanian dinar and in Gaza it uses US dollars (USD). The presentational currency is in US dollars. The presentation of figures in the financial statements is in numerically exact units, with no rounding except for decimals.

2.2 Funds of MD and changes therein are classified and reported as follows:

- *Retained Earnings* – Utilization of net assets by MD is not subject to donor-imposed restrictions. It includes earnings or losses from operations.
- *Temporary restricted net assets* - Net assets whose use by MD is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and released by actions of MD pursuant to those donor-imposed stipulations.

- *Revolving Loan Fund* - Restricted contributions received for on lending purposes, which were expended in term of loans are included in the Revolving Loan Fund once repayments are received.
- *Grants and Donations* – Grants are not recognised until there is reasonable assurance that the MD will comply with the conditions attached to them and that the grants will be received.

§ Grants whose primary condition is that the MD should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

§ Other grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the MD with no future related costs are recognized in profit or loss in the period in which they become receivable.

## 2.3 Loans Receivable and Allowance for Loan Losses

### 2.3.1. Allowance for loan losses

As the Department moved its accounting approach to the full accrual method during year 2006, management adjusted FTI No. 42 in order that the provision for bad debts is based of a new "aged portfolio at risk report" (see below) that makes the provision for bad debt on the total amount outstanding on the loan. Based upon empirical experience, historical record and market knowledge, it was determined that the following general provision is required for delinquent and defaulting loans.

Loan Status	Allowance (percent)	
Current	1 %	General Provision
1 – 30 days overdue	5 %	General Provision
31 – 60 days overdue	10 %	General Provision
61 – 90 days overdue	25 %	General Provision
91 – 120 days overdue	50 %	General Provision
121 – 180 days overdue	75 %	General Provision
181 – 360 days overdue	100%	General Provision

Based upon the above percentages, if a loan is not serviced an increasing reserve should be provided for. This provision will be shown in the income statement for the period. On a monthly basis, adjustment is made to reflect the changes in the General Provision. After a loan is in arrears for 360 or more and has been fully provisioned in the general provision and accrued interest in suspense, a write-off will take place. Write-offs are only an accounting entry; they do not mean that the department has relinquished the legal claim to recover those loans. Recovery of written-off loans will continue to be pursued through the collection and compliance section of the Microfinance Department.

### 2.3.2. Impairment Loan Losses

Each quarter the department assesses whether a loan asset or group of loan assets is impaired. A group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred ("loss event") after the initial recognition of the asset and that loss event (or events) had an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

Criteria used to determine that there is objective evidence of an impairment loss may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, breach of loan covenants or conditions, deterioration in the value of collateral, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The department first assesses whether impairment exists through determining all loans with a principal outstanding balance of more than or equal to USD 3,000 that are late by more than ninety days within the period. Each of these loans is then assessed separately to determine if there is objective evidence of impairment loss. If there is then the whole amount of the principal loan outstanding balance is impaired. The remaining balance of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the income statement.

If, in the subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

### 2.3.3. Related-Party ("insider") Loans

The MD recently started to provide loans to staff, but not to the executive director or advisory board members, effective 2007. The conditions and interest charged to staff-clients are the same as those for other customers. Loans are provided for consumption and housing.

### 2.3.4. Accrued Interest on loans

Effective year 2006, the interest income on loans financed is accounted for on the accrual basis in compliance with IAS 18. This is done by accruing interest up to 90 days by debiting accrual receivables and crediting interest revenue. After 90 days all uncollected accrual receivables are transferred to Interest in Suspense by debiting the interest revenue and crediting interest in suspense. After 360 days all bad debts that have past due will be written off.

### 2.3.5 Recoveries

Any recoveries of previously written of loans are taken to the statement of profit and loss in the period they are received.

### 2.3.6 Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash balances on-hand and short-term highly liquid investments with maturities of three months or less when purchased.

### 2.4 Property Plant and Equipment:

A - Fixed assets are stated at cost net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the respective assets, based on historical experience management maintained the policy for fixed assets as follows:

	<u>Years</u>
Furniture and Equipment	10
Computers and Printers	3
Vehicles	7
Leasehold Improvements	5

B - No in-kind donations were received during the financial year 2009.

### 2.5 Employee Separation Benefits

#### a- Provident Fund

All area staff members of MD/UNRWA participate in the UNRWA provident fund (PF) contributory scheme. Staffs' monthly contributions into the scheme are set at 7.5 percent of base salaries and the UNRWA contribution is set at 15 percent. Under the PF rules, staff members are allowed to make additional voluntary contributions up to a maximum of 50 percent of monthly payroll. All participants receive the lower of book or market value return on the fund for the period of membership in the PF. The PF is administered by the Provident Fund Secretariat (PFS) jointly with the supervision and guidance provided by two committees, the Provident Fund Committee and the Investment Advisory Committee.

#### b- Retirement Benefit Obligation

Starting in 2005, the department started booking provisions for "Retirement Benefits Obligations".

UNRWA staff are categorized under "A" and "X" staff:

"A" category: Staff contracted before the year 1990

"X" category: Staff contracted after 1990

Effective January 1, 2007 UNRWA's Commissioner-General has approved the equalization of Termination Indemnity between category A and X to ensure parity between area staff members by which both categories are entitled to the termination indemnity benefits .

For termination indemnity staff is classified into three groups:

Group 1: Less than 10 years of service or less than 46 years of age;  
Group 2: More than or equal to 10 years of service and aged between 46 and 55;  
Group 3: Early voluntary Retirement

The indemnity for each group is as follow:

Group 1: If Total Service = 1 --> 1 \* Base Salary  
If Total Service between 1.01 and 8.99 --> (Total Service - 1) \* Base Salary  
If Total Service >= 9 --> 8 \* Base Salary

Group 2: If Age = 46 --> 8.25 \* Base Salary  
If Age = 47 --> 8.50 \* Base Salary  
If Age = 48 --> 8.75 \* Base Salary  
If Age = 49 --> 9.00 \* Base Salary  
If Age = 50 --> 9.25 \* Base Salary  
If Age = 51 --> 9.50 \* Base Salary  
If Age = 52 --> 9.75 \* Base Salary  
If Age = 53 --> 10.00 \* Base Salary  
If Age = 54 --> 10.25 \* Base Salary  
If Age = 55 --> 10.50 \* Base Salary

Group 3:  $0.085 * \text{Total Years in Service} * \text{Annual Base Salary}$

#### c- Staff Leave Balance Obligation

As per UNRWA staff rule 105.1 concerning annual leave, staff are entitled to carry forward up to 10 working days for duty stations with a 5-day working week, and 12 working days for duty stations with a 6-day working week for unutilised leave. Accrued annual leave may be accumulated and carried forward from one calendar year to the next on or after the first day of January of the following year, to a maximum of 37.5 working days for duty stations with 5-day working week, and 45 working days for duty stations with 6-day working week. As all MD staff are working five working days a week the accrued annual leave shall be calculated on the base salary by using UNRWA equation to calculate the accrued leave on termination which is:  $\text{base salary} / (4.3333 * 5) * \text{Number of days due}$  .

#### 2.6 Foreign Currency Transactions:

The books of account are maintained in U.S. Dollar. Transactions in other currencies are translated to USD at UN exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated to USD at the exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of operating activities. All other assets and liabilities are presented in USD equivalent at their historical values.

#### 2.7 Recognition:

Held-to-maturity assets, originated loans and receivables are recognised on the day they are transferred to the department.

## 2.8 De-recognition:

A financial asset is de-recognised when the department loses control over the contractual rights that comprise the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is de-recognised when it is extinguished.

Held-to-maturity instruments, originated loans and receivables are de-recognised on the day they are transferred by the department.

## 2.9 Measurement:

Financial instruments are measured initially at cost. All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method.

## 2.10 Income and Expense

Income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset.

## 3. Cash and Cash Equivalents

The currency exchange rates at year-end were:

	<u>2009</u>	<u>2008</u>	<u>Change</u>
	<u>USD</u>	<u>USD</u>	<u>%</u>
One Jordanian Dinar	0.708	0.708	0.00 %
One Israeli Shekel	3.760	3.800	- 1.06%
One Syrian Pound	45.600	46.300	- 1.52 %

The composition of cash at year-end was:

	<u>31 December</u>	
	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
<b><u>Unrestricted Cash</u></b>		
Banks and Cash in Jordanian Dinar	2,771,760	1,946,444
Banks and Cash in New Israeli Shekel	66,798	192,867
Banks and Cash in US Dollar	4,101,080	2,943,863
Banks and Cash in Syrian Pound	<u>523,528</u>	<u>291,558</u>
<b>Total Unrestricted Cash and Cash Equivalents</b>	<b><u>7,463,166</u></b>	<b><u>5,374,732</u></b>
<b><u>Restricted Cash</u></b>		
OFID Pal Fund Trust	1,796,458	2,852,075
Palestinian Monetary Authority (PMA)	30,000	-
<b>Total Restricted Cash and Cash Equivalents</b>	<b><u>1,826,458</u></b>	<b><u>2,852,075</u></b>
<b>Total Cash</b>	<b><u>9,289,624</u></b>	<b><u>8,226,807</u></b>

#### 4. Loans Receivable, Net:

Loans receivable include loans outstanding from funds disbursed through both initial donor contribution (first time loans) and from revolving loan funds.

Loan receivable outstanding as 31 December 2009 as per the functional and presentational currencies was:

<u>Field</u>	<u>Functional currency</u>	<u>Presentational currency</u> <u>USD</u>
Gaza	USD 3,038,307	3,038,307
West Bank	JOD5,780,592	8,164,678
Jordan	JOD3,532,941	4,990,030
Syria	SYP 139,529,696	<u>3,059,862</u>
<b>Total</b>		<b>19,252,877</b>

The composition of loans receivable net of allowance for bad debts by maturity as at 31 December is as follows:

	<u>2009</u> <u>Net Loans</u> <u>USD</u>	<u>2008</u> <u>Net Loans</u> <u>USD</u>
Maturities less than 1 year	16,860,267	14,761,106
Maturities over than 1 year	<u>1,261,519</u>	<u>1,119,475</u>
<b>Total</b>	<b><u>18,121,787</u></b>	<b><u>15,880,581</u></b>

4.1 Net Loans Receivable is as Follows:

	<u>31 December 2009</u>			<u>31 December 2008</u>		
	<u>Loans</u> <u>USD</u>	<u>Allowance</u> <u>USD</u>	<u>NET</u> <u>USD</u>	<u>Loans</u> <u>USD</u>	<u>Allowance</u> <u>USD</u>	<u>NET</u> <u>USD</u>
SSE Loans	82,304	(5,981)	76,323	230,548	(65,262)	165,286
MEC Loans	11,498,939	(847,837)	10,651,102	10,188,788	(464,149)	9,724,639
MEC+	1,528,907	(37,305)	1,491,602	837,759	(11,708)	826,051
SGL Loans	266,093	(13,500)	252,593	233,025	(13,511)	219,514
WHC	585,174	(11,178)	573,996	270,999	(2,841)	268,158
CLP Loans	3,243,979	(188,675)	3,055,304	2,414,129	(90,664)	2,323,464
HLP Loans	<u>2,047,482</u>	<u>(26,614)</u>	<u>2,020,868</u>	<u>2,389,785</u>	<u>(36,316)</u>	<u>2,353,469</u>
<b>Total</b>	<b><u>19,252,877</u></b>	<b><u>(1,131,090)</u></b>	<b><u>18,121,787</u></b>	<b><u>16,565,033</u></b>	<b><u>(684,452)</u></b>	<b><u>15,880,581</u></b>

Net loans receivable represent outstanding balance as of December 31, 2009 and 2008 less the calculated provision for un-collectable loans as of the same date. Net loans receivable is the net realizable value of loans disbursed.

4.2 Changes in Loan Balances during year 2009 are as follows:

	<u>Beginning</u> <u>USD</u>	<u>Issued</u> <u>USD</u>	<u>Repaid</u> <u>USD</u>	<u>Written Off</u> <u>USD</u>	<u>Total</u> <u>USD</u>
<u>Gaza</u>					
SSE Loans	230,548	46,000	141,821	52,423	82,304
MEC Loans	532,786	1,211,200	1,183,029	29,120	531,837
MEC+ Loans	-	65,200	9,466	-	55,734
SGL Loans	233,025	627,000	586,331	7,601	266,093
CLP Loans	456,677	914,700	933,467	6,032	431,878
HLP Loans	<u>2,389,785</u>	<u>829,500</u>	<u>1,548,823</u>	-	<u>1,670,462</u>
<b>Sub Total</b>	<b><u>3,842,821</u></b>	<b><u>3,693,600</u></b>	<b><u>4,402,937</u></b>	<b><u>95,176</u></b>	<b><u>3,038,308</u></b>
<u>West Bank</u>					
MEC Loans	4,300,496	9,451,554	9,339,685	98,318	4,314,047

MEC+ Loans	778,437	1,950,282	1,389,560	-	1,339,159
CLP Loans	1,935,952	4,133,898	3,954,164	21,637	2,094,050
HLP Loans	-	447,034	70,014	-	377,020
HLP Loans	-	<u>42,373</u>	<u>1,972</u>	-	<u>40,401</u>
Sub Total	<u>7,014,885</u>	<u>16,025,141</u>	<u>14,755,394</u>	<u>119,955</u>	<u>8,164,677</u>
<b>Jordan</b>					
MEC Loans	3,565,567	9,256,215	8,235,535	134,875	4,451,372
MEC+ Loans	59,322	223,870	149,179	-	134,013
CLP Loans	15,452	676,836	287,643	-	404,645
Sub Total	<u>3,640,341</u>	<u>10,156,921</u>	<u>8,672,357</u>	<u>134,875</u>	<u>4,990,030</u>
<b>Syria</b>					
MEC Loans	1,789,939	5,273,465	4,819,267	42,454	2,201,683
CLP Loans	6,048	663,706	356,348	-	313,407
WHC Loans	270,999	1,324,013	1,049,966	274	544,772
Sub Total	<u>2,066,986</u>	<u>7,261,184</u>	<u>6,225,580</u>	<u>42,728</u>	<u>3,059,862</u>
Grand Total	<u>16,565,033</u>	<u>37,136,846</u>	<u>34,056,268</u>	<u>392,734</u>	<u>19,252,877</u>

Percentage of Loans Receivable by Area:

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>USD</u>	<u>%</u>	<u>USD</u>	<u>%</u>
Gaza	3,038,308	16 %	3,842,821	23 %
West Bank	8,164,677	42 %	7,014,885	42 %
Jordan	4,990,030	26 %	3,640,341	22 %
Syria	<u>3,059,862</u>	<u>16 %</u>	<u>2,066,986</u>	<u>13 %</u>
	<u>19,252,877</u>	<u>100 %</u>	<u>16,565,033</u>	<u>100 %</u>

Percentage of Loans Receivable by Type:

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>USD</u>	<u>%</u>	<u>USD</u>	<u>%</u>
SSE Loans	82,304	0.4 %	230,548	1 %
MEC Loans	11,498,939	59.6 %	10,188,788	62 %
MEC+ Loans	1,528,907	8 %	837,759	5 %
SGL Loans	266,093	1 %	233,025	1 %
WHC Loans	585,174	3 %	270,999	2 %
CLP Loans	3,243,979	17 %	2,414,129	15 %
HLP Loans	<u>2,047,482</u>	<u>11 %</u>	<u>2,389,785</u>	<u>14 %</u>
	<u>19,252,877</u>	<u>100 %</u>	<u>16,565,033</u>	<u>100 %</u>

4.3 Changes in the General Loan losses Reserve during year 2009 are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Total</u>
	<u>USD</u>	<u>( Releases )</u>	<u>USD</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>
<b>Gaza</b>			
SSE Loans	65,262	(59,281)	5,981
MEC Loans	28,354	7,258	35,612
MEC + Loans	-	557	557
SGL Loans	13,511	(11)	13,500
CLP Loans	11,371	(3,745)	7,626
HLP Loans	<u>36,316</u>	<u>(14,529)</u>	<u>21,787</u>
Sub Total	<u>154,814</u>	<u>(69,751)</u>	<u>85,063</u>

<b>West Bank</b>			
MEC Loans	233,995	34,247	268,243
MEC+ Loans	11,115	22,826	33,941
CLP Loans	79,078	72,520	151,598
HLP Loans	-	4,828	4,828
WHC Loans	-	404	404
Sub Total	<u>324,189</u>	<u>134,824</u>	<u>459,013</u>
<b>Jordan</b>			
MEC Loans	144,456	299,733	444,189
MEC+ Loans	593	2,214	2,807
CLP Loans	<u>155</u>	<u>19,853</u>	<u>20,008</u>
Sub Total	<u>145,204</u>	<u>321,800</u>	<u>467,004</u>
<b>Syria</b>			
MEC Loans	57,344	42,450	99,794
CLP Loans	60	9,382	9,442
WHC	<u>2,841</u>	<u>7,932</u>	<u>10,774</u>
Sub Total	<u>60,245</u>	<u>59,764</u>	<u>120,010</u>
<b>Grand Total</b>	<b><u>684,452</u></b>	<b><u>446,639</u></b>	<b><u>1,131,090</u></b>

Percentage of Written Off Loans

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>USD</u>	<u>%</u>	<u>USD</u>	<u>%</u>
SSE Loans	52,423	13 %	4,044	2 %
MEC Loans	304,767	78 %	229,109	89 %
MEC+	-	-	-	-
Loans				
SGL Loans	7,601	2 %	14,846	6 %
WHC	274	-	-	-
CLP Loans	27,669	7 %	5,737	2 %
HLP Loans	-	-	4,509	1 %
	<u>392,734</u>	<u>100 %</u>	<u>258,245</u>	<u>100 %</u>

4.4 Loans Receivable, as at 31 December 2009, Distributed by Sector are as follows:

	Agriculture	Commerce	Industry	Service	Consumer	Housing	Total
<u>Gaza</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
SSE	333	25,995	20,977	34,999	-	-	82,304
MEC	46,836	280,107	30,877	174,017	-	-	531,837
MEC+	-	26,432	14,994	14,308	-	-	55,734
SGL	63,956	139,983	40,164	21,990	-	-	266,093
HLP	-	-	-	-	-	1,670,462	1,670,462
CLP	-	-	-	-	431,878	-	431,878
Sub-Total	<u>111,125</u>	<u>472,517</u>	<u>107,012</u>	<u>245,314</u>	<u>431,878</u>	<u>1,670,462</u>	<u>3,038,308</u>
<b>West Bank</b>							
MEC	234,167	1,520,055	473,828	2,085,997	-	-	4,314,047
MEC+	31,141	587,918	186,794	533,306	-	-	1,339,159
CLP	-	-	-	-	2,094,050	-	2,094,050
HLP	-	-	-	-	-	377,020	377,020
WHC	<u>3,955</u>	<u>6,497</u>	<u>13,802</u>	<u>5,277</u>	<u>10,870</u>	-	<u>40,401</u>
Sub Total	<u>269,263</u>	<u>2,114,470</u>	<u>674,424</u>	<u>2,624,581</u>	<u>2,104,920</u>	<u>377,020</u>	<u>8,164,677</u>
<b>Jordan</b>							

MEC	4,456	2,130,734	528,246	1,787,935	-	-	4,451,372
MEC+	-	64,946	17,655	51,412	-	-	134,013
CLP	-	-	-	-	404,645	-	404,645
Sub Total	<u>4,456</u>	<u>2,195,680</u>	<u>545,901</u>	<u>1,839,348</u>	<u>404,645</u>	=	<u>4,990,030</u>
<u>Syria</u>							
MEC	877	1,020,421	288,384	892,000	-	-	2,201,683
CLP	-	-	-	-	313,407	-	313,407
WHC	592	83,713	72,776	26,540	361,151	-	544,772
Sub Total	<u>1,469</u>	<u>1,104,135</u>	<u>361,160</u>	<u>918,540</u>	<u>674,557</u>	=	<u>3,059,862</u>
Grand Total	<u>386,313</u>	<u>5,886,801</u>	<u>1,688,498</u>	<u>5,627,783</u>	<u>3,616,000</u>	<u>2,047,482</u>	<u>19,252,877</u>

Percentage of Loans Receivables Distributed by Sector is as follows:

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>USD</u>	<u>%</u>	<u>USD</u>	<u>%</u>
Agriculture	386,313	2 %	232,948	2 %
Commerce	5,886,801	30 %	5,174,773	31 %
Industry	1,688,498	9 %	1,453,974	9 %
Service	5,627,783	29 %	4,826,895	29 %
Consumer	3,616,000	19 %	2,486,658	15 %
Housing	2,047,482	11 %	2,389,785	14 %
Total	<u>19,252,877</u>	<u>100 %</u>	<u>16,565,033</u>	<u>100 %</u>

\*CLP and HLP loans are disbursed to individuals for household improvements and development and are not distributed among any enterprise sector.

4.5.1 Loans Receivable, as at 31 December 2009 distributed by Geographical Area are as follows:

	SSE	MEC	MEC+	WHC	SGL	CLP	HLP	Total
<u>Gaza</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Gaza Area	63,954	202,314	41,734	-	101,025	208,416	903,035	1,520,478
Middle Area	7,146	99,075	-	-	74,202	115,994	407,342	703,759
Southern Area	<u>11,204</u>	<u>230,447</u>	<u>14,000</u>	=	<u>90,866</u>	<u>107,468</u>	<u>360,086</u>	<u>814,071</u>
Total Gaza	<u>82,304</u>	<u>531,836</u>	<u>55,734</u>	=	<u>266,093</u>	<u>431,878</u>	<u>1,670,463</u>	<u>3,038,308</u>
<u>West Bank</u>								
Nablus	-	859,143	289,305	13,801	-	339,693	53,433	1,555,375
Tulkarm	-	539,879	85,845	26,600	-	235,550	29,709	917,583
Jenin	-	572,021	13,613	-	-	196,550	13,694	795,877
Qalqilya	-	187,438	125,179	-	-	129,080	29,220	470,917
Ramallah	-	743,854	375,561	-	-	345,211	-	1,464,626
Bethlehem	-	746,573	236,722	-	-	418,416	88,433	1,490,145
Hebron	-	665,138	212,936	-	-	429,550	162,532	1,470,155
Total W.B	-	<u>4,314,047</u>	<u>1,339,159</u>	<u>40,401</u>	=	<u>2,094,050</u>	<u>377,020</u>	<u>8,164,677</u>
<u>Jordan</u>								
Wehdat	-	1,385,115	61,017	-	-	104,637	-	1,550,769
Al-Balad	-	1,270,580	18,225	-	-	180,566	-	1,469,372
Bayader	-	965,560	54,771	-	-	99,956	-	1,120,287
Al-Zarqa	-	830,116	-	-	-	19,486	-	849,602
Total Jordan	-	<u>4,451,372</u>	<u>134,013</u>	=	-	<u>404,645</u>	=	<u>4,990,030</u>
<u>Syria</u>								
Yarmouk	-	848,079	-	309,045	-	122,906	-	1,280,030
Al-Ameen	-	1,033,686	-	43,707	-	132,150	-	1,209,542
Saida Zeynab	=	<u>319,918</u>	=	<u>192,020</u>	=	<u>58,350</u>	=	<u>570,289</u>
Total Syria	-	<u>2,201,683</u>	=	<u>544,772</u>	=	<u>313,407</u>	=	<u>3,059,862</u>

Grand Total 82,304 11,498,938 1,528,907 585,174 266,093 3,243,979 2,047,483 19,252,877

4.5.2 MD internal reports, decisions, and performance assessments include interest income and recovery income from different loan products based on geographical segments as follows:

	<u>SSE</u> <u>USD</u>	<u>MEC</u> <u>USD</u>	<u>MEC+</u> <u>USD</u>	<u>WHC</u> <u>USD</u>	<u>SGL</u> <u>USD</u>	<u>CLP</u> <u>USD</u>	<u>HLP</u> <u>USD</u>	<u>Total</u> <u>USD</u>	<u>Ratio</u>
<b>Interest on Loans</b>									
Gaza	26,615	213,135	3,119	-	100,432	195,939	328,374	867,615	13 %
West Bank		1,841,586	353,153	540	-	856,833	18,719	3,070,831	47 %
Jordan	-	1,496,775	33,563	-	-	63,709	-	1,594,047	24 %
Syria	-	<u>813,194</u>	-	<u>167,950</u>	-	<u>70,680</u>	-	<u>1,051,824</u>	<u>16 %</u>
<b>Total</b>	<b>26,615</b>	<b>4,364,690</b>	<b>389,835</b>	<b>168,490</b>	<b>100,432</b>	<b>1,187,161</b>	<b>347,093</b>	<b>6,584,317</b>	<b>100 %</b>
<b>Product Ratio</b>	<b>0.5 %</b>	<b>66 %</b>	<b>6 %</b>	<b>2.5 %</b>	<b>2 %</b>	<b>18 %</b>	<b>5 %</b>	<b>100 %</b>	
<b>Recoveries from Written loans</b>									
Gaza	65,657	32,242	-	-	13,679	5,583	-	117,161	23 %
West Bank	18,147	318,312	-	-	-	5,295	-	341,755	68 %
Jordan	-	42,461	-	-	-	-	-	42,461	8 %
Syria	-	<u>4,553</u>	-	-	-	-	-	<u>4,553</u>	<u>1 %</u>
<b>Total</b>	<b>83,804</b>	<b>397,569</b>	<b>-</b>	<b>-</b>	<b>13,679</b>	<b>10,878</b>	<b>-</b>	<b>505,930</b>	<b>100 %</b>
<b>Product Ratio</b>	<b>17 %</b>	<b>78 %</b>			<b>3 %</b>	<b>2 %</b>		<b>100 %</b>	

4.6 Related Parties, during 2009 seven loans were lent to the MD staff in Gaza in the form of consumer loans with a value of USD16,600 the position of these loans at the end of the year was:

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
Loans Disbursed	16,600	11,000
Repayments	(5,698)	(4,654)
End Of Year Outstanding Balance	<u>10,902</u>	<u>6,346</u>

4.7 MD's loan collateral is determined according to the loan product, loan size and the legal requirements in each area of operations.

<b>Product</b>	<b>Min-Max loan amount</b>	<b>Collateral</b>
<b>Gaza</b>		
SGL	USD 200 - 4,000	Loan contract plus notarial deed
CLP	3 times monthly salary	Loan contract plus post-dated cheques
HLP	USD 2,500 -15,000	Guarantor (UNRWA employee) plus loan contract and post-dated cheques
MEC	USD 400 – 8,000	loan contract plus post-dated cheques
MEC+	USD 5,000 - 21,000	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques) and plus guarantor(UNRWA Staff)

SSE	USD 3,000 – 70,000	Guarantor (UNRWA employee) plus loan contract plus loan contract plus post-dated cheques
<b>West Bank</b>		
MEC	JOD 200 – 8,000	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques) and promissory note plus social guarantor
CLP	3 times monthly salary	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques) and promissory note plus social guarantor
MEC+	JOD 6,100 – 15,000	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques) and promissory note plus social guarantor
HLP	JOD 4,000 - 12,000	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques) and promissory note plus social guarantor
WHC	JOD 200 – 1,500	Loan Contract plus promissory note and social guarantor.
<b>Jordan</b>		
MEC	JOD 200 - 6,000	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques)
CLP	3 times monthly salary	loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques)
MEC+	JOD 6,100 - 15,000	Loan contract plus post-dated cheques (non-blank cheques "in value of loan and date" or blank cheques plus notarial deed (for new clients)
<b>Syria</b>		
WHC	SYP 10,000 - 150,000	Loan contract plus notarial deed. Post-dated for loans above SYP 100,000
CLP	SYP 10,000 - 150,000	Loan contract plus notarial deed. Post-dated for loans above SYP 100,000
MEC	SYP10,000 - 300,000	Loan contract plus notarial deed. Post-dated cheques for loans above SYP100,000

## 5. Property, Plant and Equipment

### Composition for year 2008:

	Furniture And Equipment <u>USD</u>	Computers And Hardware <u>USD</u>	Vehicles <u>USD</u>	Leasehold Improvements <u>USD</u>	Total <u>USD</u>
<b>Cost :</b>					
Balance Jan. 1	372,792	312,100	502,153	227,279	1,414,324
Additions	145,963	59,638	77,914	100,533	384,048
Disposals	-	-	38,050	-	38,050
Balance Dec. 31	<u>518,755</u>	<u>371,738</u>	<u>542,017</u>	<u>327,812</u>	<u>1,760,322</u>
<b>Accumulated Depreciation</b>					
Balance Jan. 1	134,008	214,993	139,100	124,136	612,236
2006 Dep.	39,545	67,769	65,673	46,604	219,592
Disposals	=	=	<u>38,050</u>	=	<u>38,050</u>
Balance Dec. 31	<u>173,553</u>	<u>282,762</u>	<u>166,723</u>	<u>170,740</u>	<u>793,778</u>
Net Book Value	<u>345,202</u>	<u>88,976</u>	<u>375,294</u>	<u>157,072</u>	<u>966,544</u>

### Composition for year 2009:

	Furniture And Equipment <u>USD</u>	Computers And Hardware <u>USD</u>	Vehicles <u>USD</u>	Leasehold Improvements <u>USD</u>	Total <u>USD</u>
<b>Cost :</b>					
Balance Jan. 1	518,755	371,738	542,017	327,812	1,760,322
Additions	73,873	47,082	9,619	26,876	157,450
Disposals	-	(42,911)	-	-	(42,911)
Balance Dec. 31	<u>592,628</u>	<u>375,909</u>	<u>551,636</u>	<u>354,688</u>	<u>1,874,861</u>
<b>Accumulated Depreciation</b>					
Balance Jan. 1	173,553	282,762	166,723	170,740	793,778
2009 Dep.	50,259	60,186	74,731	56,348	241,524
Disposals	=	<u>(42,911)</u>	=	=	<u>(42,911)</u>
Balance Dec. 31	<u>223,812</u>	<u>300,037</u>	<u>241,454</u>	<u>227,088</u>	<u>992,391</u>
Net Book Value	<u>368,816</u>	<u>75,872</u>	<u>310,182</u>	<u>127,600</u>	<u>882,469</u>

## 6. Bills Payable to UNRWA:

Represents expenses paid by UNRWA on behalf of the MD in respect of the operating expenses incurred by MD, which are billed on a monthly basis. Beginning in November 2009 the MD began to directly settle its accounts payable through the MD bank accounts. This includes all expenses except staff salaries and procurement which continues to be paid by UNRWA field offices and charged to the MD on a monthly basis. Also excluded are donations which are also settled by UNRWA and not the MD.

	<u>2009</u> <u>USD</u>	<u>2008</u> <u>USD</u>
<b>Expenses Paid on Behalf of MD</b>	<b><u>448,318</u></b>	<b><u>853,933</u></b>
<b>Total amount due to UNRWA</b>	<b><u>448,318</u></b>	<b><u>853,933</u></b>

## 7. Liability - OFID PalFund Trust Fund

On June 15, 2004, UNRWA signed an "Administration Agreement" with the OPEC Fund for International Development (OFID) to administer the PalFund Trust Fund. Funds were provided to UNRWA, as an administrator, in the sum of USD 2,500,000 to be used exclusively for the promotion of microenterprise through loans for the Palestinians in the occupied Palestinian territory. The PalFund Trust Fund is held in a non-interest bearing current bank account according to the conditions of the agreement.

In consideration of the Administrator performing the services, the agreement specified that the Administrator may deduct programme support costs of up to 5 percent from the original fund only. The Administrator may also charge such reasonable fees or other charges under the client loan agreements to cover such costs to the Administrator as directly and reasonably incurred in connection with the conclusion of borrower loan agreements. UNRWA transferred responsibility for the administration of the trust fund activities to the MD.

By December 31, 2004, one instalment in the amount of USD 500,000 was received by UNRWA. Programme support costs of USD 25,000 were deducted by UNRWA and the balance of USD 475,000 financed loans through the MD.

In 2005, UNRWA received a second instalment of USD 2,000,000. An amount of USD 500,000 was received by the department in Gaza, and another USD 1,500,000 was received by the department in the West Bank. An amount of USD 100,000 was collected by UNRWA as Programme Support Cost (PSC) calculated at 5 percent of the amount received. The balance of USD 1,900,000 represents the net liability to UNRWA under the second instalment bringing the total accumulated liability to USD 2,375,000 as of 31 December 2007.

During 2007 a letter of agreement was signed with OFID, which increased the PalFund Trust Fund by a further sum of USD 4.50 million, with no PSC deducted from this amount. It was agreed with OFID that the funds will be paid in two separate instalments of USD 2.00 million and USD 2.50 million, upon submission and approval of a list of proposed Pal Fund Projects submitted by MD to OFID. No

proposed PalFund Projects were submitted to OFID during year 2007, although the MD submitted the list in February for projects that were financed in the last quarter of 2007.

During 2008 the department have received the USD 4,500,000, which added the total Liability to USD 6,875,000 as end of 2008.

In 2009 UNRWA signed a new letter of agreement with OFID for a further pledge of USD 3.00 million to the PalFund trust Fund. By the end of 2009 the department has received USD 2.00 million, raising the total liability to OFID to USD \$8,875,000 as end of 2009, with a pledge of USD 1.00 million outstanding. The position of OFID Loans Receivable, Net at end year was as the following:

	<u>2009</u>	<u>2008</u>
<b>Loans Receivable</b>	<b>6,474,750</b>	<b>5,003,301</b>
<b>Allowance</b>	<b>(323,528)</b>	<b>(244,338)</b>
<b>OFID Loans Receivable, Net</b>	<b><u>6,151,222</u></b>	<b><u>4,758,963</u></b>

## 8. Grants and Donations

### 8.1 Grand Duchy of Luxembourg

During 2008 an agreement was signed between UNRWA and the Grand Duchy of Luxembourg for a project for “Microfinance Development and Capacity Building: Supporting Economic Recovery and Rehabilitation through Microenterprise and Consumer Lending”. The MD was funded to undertake the following activities:

	USD
Fund Agreement	1,479,290
Less : HQ-P.S.C	<u>(96,777)</u>
Net For the Following Use :	<u>1,382,513</u>
<b>a. Loan Capital</b>	1,029,258
- Spent By Gaza	(213,800 )
- Spent by West Bank	<u>(815,458)</u>
Fund Balance 31/12/2009	<u>0</u>
<b>b. Establishment of Qalqilya Branch</b>	257,396
- Spent for Running Cost and Fixed Assets (2008,2009)	(235,424)
Fund Balance 31/12/2009	<u>21,972</u>
<b>c. Procurement of Saving Module</b>	35,503
-Spent during 2008 and 2009	<u>35,503</u>
Fund Balance 31/12/2009	<u>0</u>

<b>d. Business Plan</b>	30,178
-Spent during 2008 and 2009	<u>30,178</u>
Fund Balance 31/12/2009	<u>0</u>
<b>e. Impact assessment Study</b>	30,178
-Spent during 2008 and 2009	<u>(30,178)</u>
Fund Balance 31/12/2009	<u>0</u>
<b>Pledges Receivable 31/12/2009</b>	<b><u>21,972</u></b>

In 2009, additional financing of USD 365,973 was received from the Duchy of Luxemburg to support the SMET programme in Gaza and capacity-building activities. These included the following activities:

<b>a. Gaza SMET</b>	101,423
- Transferred from West Bank	15,695
- Spent during 2009	<u>(97,039)</u>
<b>Gaza Fund Balance 31/12/2009</b>	<b>20,079</b>
<b>b. MD Studies</b>	
-Transformation Plan and Feasibility Study	132,275
- Product Development	52,910
- Social Performance Management	79,365
- Spent during 2009	<u>(19,950)</u>
- Transferred to Gaza	<u>(15,695)</u>
<b>West Bank Pledges Receivable 31/12/2009</b>	<b>228,905</b>
<b>Total Pledges Receivable 31/12/2009</b>	<b><u>270,956</u></b>

## 9. Revolving Loan Fund:

*Revolving Loan Fund* - Restricted contributions received for on-lending purposes, which were expended in term of loans are included in the Revolving Loan Fund.

Composition of this fund by funding source as at December 31, 2009 is as follows:

	<u>Gaza</u>	<u>West Bank</u>	<u>Syria</u>	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Australia	619,272	-	-	619,272	619,272
Canada	200,370	170,220	-	370,590	370,590
Germany	1,682,252	1,276,323	-	2,958,575	2,958,575
Italy	725,750	218,500	-	944,250	944,250
Japan	357,142	223,199	-	580,341	580,341
New Zealand	122,822	-	-	122,822	122,822
Norway	2,794,013	340,968	-	3,134,981	3,134,981
UNRWA	80,000	-	-	80,000	80,000
AGFUND	131,400	-	53,571	184,971	184,971
CIDA	943,350	-	-	943,350	943,350
Netherlands	2,626,405	1,676,748	-	4,303,153	4,303,153
USAID	4,237,197	-	-	4,237,197	4,237,197
AAID	1,207,391	1,150,848	-	2,358,239	2,358,239
SMART		949,011	-	949,011	949,011
Luxemburg	<u>213,800</u>	<u>862,147</u>	-	<u>1,075,947</u>	<u>1,028,913</u>
Grand Total	<u>15,941,164</u>	<u>6,867,964</u>	<u>53,571</u>	<u>22,862,698</u>	<u>22,815,665</u>

## 10. Staff Retirement Benefit Obligation:

	<u>2009</u>	<u>2008</u>
End of Year Services	797,329	714,382
Accrued Staff Leave	<u>253,776</u>	<u>201,322</u>
Total	<u>1,051,105</u>	<u>915,704</u>

## 11. Grant Funds for Operations

The total expenditure for grant funds for operation expenses for the years 2009 and 2008 are as follows:

<u>Donor</u>	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
Duchy of Luxemburg	153,779	97,678
AED/SMART	-	<u>35,343</u>
Total	<u>153,779</u>	<u>133,021</u>

## 12. Geographical Segments

MD operates out of four principal field offices located in the West Bank, Gaza, Jordan, and Syria. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of borrowers. Segment assets are based on the geographical location of assets.

## 12.1 Statement of Financial Position by Geographical Segment

Assets	Gaza		West Bank		Jordan		Syria		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
<b>Non-Current Assets:</b>										
Property, Plant and Equipment	116,935	123,365	374,661	376,616	193,843	240,323	197,029	226,239	882,469	966,544
Loans Receivable, Net	735,601	1,119,475	509,675	-	16,243	-	-	-	1,261,519	1,119,475
	<u>852,536</u>	<u>1,242,840</u>	<u>884,336</u>	<u>376,616</u>	<u>210,086</u>	<u>240,323</u>	<u>197,029</u>	<u>226,239</u>	<u>2,143,988</u>	<u>2,086,019</u>
<b>Current Assets :</b>										
Loan Receivable , Net	2,217,643	2,568,532	7,195,989	6,690,697	4,506,783	3,495,137	2,939,852	2,006,740	16,860,267	14,761,106
Pledges Receivable	20,079	-	250,877	192,832	-	33	-	-	270,956	192,865
Prepayment and other Receivables	3,594	6,084	118,119	98,502	45,777	18,417	15,932	8,211	183,422	131,214
Cash and Cash Equivalents	3,996,725	4,485,044	3,412,120	2,623,762	1,069,063	573,348	811,816	544,652	9,289,724	8,226,807
	<u>6,238,042</u>	<u>7,059,661</u>	<u>10,977,105</u>	<u>9,605,793</u>	<u>5,621,623</u>	<u>4,086,936</u>	<u>3,767,600</u>	<u>2,559,603</u>	<u>26,604,370</u>	<u>23,311,992</u>
<b>Total Assets</b>	<u>7,090,578</u>	<u>8,302,501</u>	<u>11,861,441</u>	<u>9,982,408</u>	<u>5,831,710</u>	<u>4,327,259</u>	<u>3,964,629</u>	<u>2,785,842</u>	<u>28,748,358</u>	<u>25,398,011</u>
<b>Equity</b>										
General Undesignated	(3,906,756)	(3,875,669)	(1,627,086)	(2,752,345)	61,574	(74,752)	184,060	(30,000)	(5,288,209)	(6,732,765)
Fund Held for Training	121,219	74,824	-	-	-	-	-	-	121,219	74,823
Board Designated Fund/MIS System	20,209	23,428	-	-	-	-	-	-	20,209	23,428
Temporary Restricted Fund	-	-	-	-	-	-	-	-	-	-
Revolving Loan Fund	15,941,217	15,941,217	6,867,910	6,820,877	-	-	53,571	53,571	22,862,698	22,815,665
<b>Total Equity</b>	<u>12,175,889</u>	<u>12,163,800</u>	<u>5,240,824</u>	<u>4,068,532</u>	<u>61,574</u>	<u>(74,752)</u>	<u>237,631</u>	<u>23,571</u>	<u>17,715,918</u>	<u>16,181,151</u>
<b>Non-Current Liabilities</b>										
Retirement Benefit Obligations	501,629	490,445	422,011	326,825	70,963	54,358	56,501	44,076	1,051,105	915,704
	<u>501,629</u>	<u>490,445</u>	<u>422,011</u>	<u>326,825</u>	<u>70,963</u>	<u>54,358</u>	<u>56,501</u>	<u>44,076</u>	<u>1,051,105</u>	<u>915,704</u>
<b>Current Liabilities :</b>										
Payables and Accruals	91,172	55,779	408,382	471,177	31,941	27,103	26,522	18,164	658,017	572,223
Inter-Office Accounts	(8,677,103)	(8,071,404)	(498,445)	1,268,699	5,584,701	4,191,681	3,590,848	2,611,024	-	-
Bills Payable to UNRWA	84,929	180,708	227,731	455,349	82,530	128,870	53,127	89,006	448,318	853,933
Liability to UNRWA-OFID Pal Trust Fund	2,914,062	3,483,175	5,960,938	3,391,825	-	-	-	-	8,875,000	6,875,000
	<u>(5,586,940)</u>	<u>(4,351,743)</u>	<u>6,198,606</u>	<u>5,587,050</u>	<u>5,699,172</u>	<u>4,347,654</u>	<u>3,670,496</u>	<u>2,718,195</u>	<u>9,981,335</u>	<u>8,301,156</u>
<b>Total Current Liabilities</b>	<u>(5,586,940)</u>	<u>(4,351,743)</u>	<u>6,198,606</u>	<u>5,587,050</u>	<u>5,699,172</u>	<u>4,347,654</u>	<u>3,670,496</u>	<u>2,718,195</u>	<u>9,981,335</u>	<u>8,301,156</u>
<b>Total Liabilities</b>	<u>(5,085,310)</u>	<u>(3,861,298)</u>	<u>6,620,617</u>	<u>5,913,875</u>	<u>5,770,136</u>	<u>4,402,012</u>	<u>3,726,998</u>	<u>2,762,271</u>	<u>11,032,440</u>	<u>9,216,860</u>
<b>Total Equity and Liabilities</b>	<u>7,090,578</u>	<u>8,302,501</u>	<u>11,861,441</u>	<u>9,982,408</u>	<u>5,831,710</u>	<u>4,327,259</u>	<u>3,964,929</u>	<u>2,785,842</u>	<u>28,748,358</u>	<u>25,398,011</u>

## 12.2 Statement of Comprehensive Income by geographical Segment

	Gaza		West Bank		Jordan		Syria		Central Office		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
<b>Interest and Other Operating Income :</b>												
Interest on Loans	867,615	792,223	3,070,831	2,077,167	1,594,047	981,754	1,051,824	669,821			6,584,317	4,520,965
Accrued Interest Revenue	3,501	6,036	58,000	40,818	45,777	18,417	10,540	5,672			117,818	70,943
Interest On Banks Deposits	1,477	86,594	8,295	14,978	6,086	8,504	-	1,031			15,858	111,107
Grant Funds for Operations	-	-	153,779	133,021	-	-	-	-			153,779	133,021
Other revenues	23,540	11,542	10,129	32,812	1,099	2,272	54,183	46,998			88,951	93,624
<b>Total Operating Revenues</b>	<b>896,132</b>	<b>896,395</b>	<b>3,301,034</b>	<b>2,298,796</b>	<b>1,647,009</b>	<b>1,010,947</b>	<b>1,116,547</b>	<b>723,522</b>			<b>6,960,723</b>	<b>4,929,660</b>
<b>Impairment Losses On Loans</b>												
Provision Expenses for Impaired Loans	(25,425)	(38,476)	(254,805)	(202,741)	(456,676)	(131,430)	(97,559)	(38,048)			(834,466)	(410,694)
Recoveries from Written Loans	117,161	320,756	341,755	468,686	42,461	39,805	4,553	15,286			505,930	844,533
<b>Net Impairment Losses On Loans</b>	<b>91,736</b>	<b>282,280</b>	<b>86,950</b>	<b>265,945</b>	<b>(414,216)</b>	<b>(91,625)</b>	<b>(93,006)</b>	<b>(22,761)</b>			<b>(328,535)</b>	<b>433,838</b>
<b>Operating Expense</b>												
Salaries and Related Exp.	620,772	825,917	1,260,064	1,200,322	495,793	460,724	370,017	299,087	624,945	504,689	3,371,591	3,290,739
Special Service Contracts	25,318	26,057	41,778	85,321	25,436	8,651	22,439	17,495	154,662	120,977	269,633	195,213
Occupancy	50,448	60,188	136,191	100,274	51,000	44,981	80,929	68,362	7,048	4,093	325,616	277,897
Communication	13,968	21,263	70,676	42,737	35,173	27,457	21,112	11,987	5,456	1,935	146,385	105,379
Stationary and Supplies	18,806	20,241	67,823	69,706	68,045	47,222	33,137	23,463	125,637	17,248	313,449	241,169
Minor Equipment & Maintenance	16,232	5,158	1,123	593	18,275	7,645	9,335	1,770	19,123	-	64,088	15,166
Travel and Transportation	19,863	36,164	116,056	60,314	49,333	36,216	17,717	20,097	64,744	48,285	267,712	201,076
Depreciation	34,161	34,472	67,693	48,313	52,456	49,037	50,944	50,720	35,660	37,049	240,915	219,592
Loss on Exchange Difference	8,909	1,277	2,634	18,786	832	-	(3,775)	(11,576)	-	-	8,599	8,487
Program Support Cost	10,199	15,732	21,197	27,451	13,248	15,128	11,786	14,573	20,477	11,651	76,907	84,535
Training	21,650	6,392	12,963	51,579	2,473	12,291	13,393	17,189	34,081	17,226	84,559	104,677
Others	1,700	813	8,948	8,092	1,915	1,374	3,333	5,434	2,283	1,146	18,179	16,858
<b>Total Operating Expenses</b>	<b>(842,027)</b>	<b>(1,053,674)</b>	<b>(1,807,145)</b>	<b>(1,713,488)</b>	<b>(813,978)</b>	<b>(710,726)</b>	<b>(630,367)</b>	<b>(518,600)</b>	<b>1,094,115</b>	<b>764,301</b>	<b>(5,187,632)</b>	<b>(4,760,788)</b>
Allocation of Central Office Operating Expenses	(176,930)	(193,761)	(518,678)	(316,446)	(244,631)	(156,589)	(153,876)	(97,506)	(1,094,115)	(764,301)	-	-
Allocation of Jerusalem Office			63,095	78,339	(37,857)	(49,979)	(25,238)	(28,360)			-	-
<b>Net Income ( Loss ) for the Period</b>	<b>(31,088)</b>	<b>(68,760)</b>	<b>1,125,256</b>	<b>613,146</b>	<b>136,327</b>	<b>2,028</b>	<b>214,061</b>	<b>56,295</b>	<b>-</b>	<b>-</b>	<b>1,444,555</b>	<b>602,711</b>

### 13. Risk:

Risk is inherent in the microfinance industry. Effective risk management is seen as the primary means for microfinance institutions to keep functioning. Ultimate responsibility for effective management of risks rests with the Director of the Microfinance Department. Several types of Risks apply to the MD, these are:

- **Credit Risk** is the risk that counterparty will not settle its obligations in accordance with the agreed terms. The credit risk management process, includes:
  - Formulating credit policies by product covering collateral requirements, credit compliance with regulatory requirements.
  - Establishing the authorization structure for the approval and renewal of credit facilities.
  - Reviewing and assessing credit risk in excess of designated limits prior to facilities being committed to customers. Renewals of facilities are subject to the same process.
  - Developing and maintaining risk grading system in order to categorize exposure according when impairment provisions are required against specific credit exposures.
  - Provide guidance and training to improve skills of staff to promote best practices in the management of credit risk.
- **Country Risk** is the risks that counterparty is unable to meet its contractual obligations as a result of adverse economic conditions or actions taken by government in the relevant country.
- **Market Risk** is the risks that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates.
- **Liquidity Risk** is the risk that funds will not be available to meet liabilities as they fall due.
- **Operational and Other Risks** is the risk of direct and indirect loss due to an event or action causing the risks having operational risk impact.
- **Political Risk** is the risk that an existing political situation makes it difficult for microfinance institutions to function, for example, in war and situations of humanitarian crisis and emergency.
- **Currency Risk** is the risk that an unfavourable change in the value of currency will result in an unpredictable decrease in earning, cash flow or value.

In occupied Palestinian territory, because of the present circumstances, political risk, country risk and credit risk are very high, while country and political risk remains low in both Jordan and Syria. To mitigate the risk in the oPt, management did the following;

- a. SSE loans have been significantly reduced since 2001. In this category the amount of loans is relatively high, which bears a high risk factor because of the present situation. Management decided to significantly reduce its activities under this programme in both Gaza and West Bank and has currently ceased all SSE lending in the West Bank.
- b. Management concentrated on expanding short-term lending activities under MEC, WHC and SGL products categories. These loans, range between USD 1,000-8,000 and USD 200-4,000 respectively, and aim at distributing the risk to a larger number of borrowers. However, even here management has to reduce lending in Gaza in 2009 due to increasing risk there.

- c. Management introduced a new housing loan product in Gaza with very tight collateral conditions that mitigated the political and country risk. Demand for this product was constrained due to the boycott on construction materials entering Gaza in 2009. Despite the low outreach of the product, it still has minimal risk.
- d. In 2007 management introduced the CLP product into the West Bank, where the economic situation had improved due a lessening of previous fiscal crisis as the international community stepped up its financial contribution to the PA under the President. It further extended this product into Jordan and Syria at the end of 2008.
- e. The current effective internal control system and procedures were further tightened up. Constant follow-up and loan-monitoring procedures were introduced to reduce Credit Risk of borrowers. However, the department now has to operate in a market where policing and the enforcement of contract law through the courts are highly dysfunctional and barely operating, especially in Gaza.
- f. To reduce general portfolio risk, management is rapidly expanding the portfolio in West Bank, Jordan and Syria where portfolio quality remains high and can offset risk in Gaza. As a result each of these three regions produced record outreach in 2009, which is expected to continue in 2010.

Currency risk is a significant factor in the MD operations as the department lends in different currencies in each field, with the United States Dollar (USD) used in Gaza, the Jordanian Dinar (JOD) used in Jordan and the West Bank and the Syrian Pound (SYP) used in Syria. Exchange rate losses/gains are reported in the financial statement and MD management attempts to mitigate potential losses by maintaining cash that is not required for operations in USD, and maintaining JOD and SYP required for loan financing with a low threshold in banks.

The carrying amount of the MD's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b><u>USD</u></b>	<b><u>USD</u></b>	<b><u>USD</u></b>	<b><u>USD</u></b>
Jordanian Dinar	549,476	425,259	15,926,467	12,601,670
Syrian Pound	-	-	3,583,390	2,358,544
<b>Total</b>	<b>549,476</b>	<b>425,259</b>	<b>19,509,857</b>	<b>14,960,214</b>

The main currency exposure is with JOD and SYP. The following table details the MD's sensitivity to a 10 percent increase and decrease in the US dollar (reporting currency) against the relevant foreign currencies. 10 percent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 percent change in foreign currency rates. The sensitivity analysis includes loans. A positive number below indicates an increase in profit where the US Dollar strengthens 10 percent against the relevant currency. For a 10 percent weakening of the US Dollar against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

A 10 percent sensitivity analysis at the end of the reporting period produces a profit/loss variant as follows:

	Jordanian Dinar		Syrian Pounds	
	2009 USD	2008 USD	2009 USD	2008 USD
<b>Profit or loss</b>	<b>1,647,594</b>	<b>1,302,692</b>	<b>358,339</b>	<b>235,854</b>

#### 14. Portfolio Quality:

##### a. Portfolio at Risk Ratio:

Portfolio at risk ratio (balance of loans in arrears / value of loans outstanding) measures amount of default risk in portfolio. An increasing portfolio at risk is negative.

##### Portfolio at Risk

	2009		2008	
	Principal Outstanding USD	Portfolio at Risk Ratio	Principal Outstanding USD	Portfolio at Risk Ratio
Current	15,713,234		13,601,231	
1 to 30	1,927,030		1,944,930	
31 to 60	443,417	2.30 %	392,173	2.37 %
61 to 90	251,956	1.31 %	165,237	1.00 %
91 to 120	187,240	.97 %	108,121	.65 %
121 to 180	239,683	1.24 %	146,866	.89 %
181 to 360	490,316	2.55 %	206,475	1.25 %
	<u>19,252,877</u>		<u>16,565,033</u>	
<b>Portfolio at Risk 30 Days</b>		<b>8.37 %</b>		<b>6.16 %</b>

##### b. Portfolio in Arrears Ratio:

Portfolio in arrears ratio (Value of Payments in Arrears / Value of Loans Outstanding), the ratio indicates amount of loan payments past due. An increasing portfolio in arrears is negative.

Value of loans in arrears equals the value of payments due (unpaid loan instalments).

##### Portfolio in Arrears

	2009		2008	
	Payments in Arrears USD	Portfolio in Arrears Ratio Percent	Payments in Arrears USD	Portfolio in Arrears Ratio Percent
1 to 30	376,351	1.95 %	294,369	1.78 %
31 to 60	193,407	1.00 %	120,359	.73 %
61 to 90	138,940	.72 %	78,385	.47 %
91 to 120	117,523	.61 %	60,726	.37 %
121 to 180	188,070	.98 %	82,955	.50 %
181 to 360	265,004	1.38 %	97,389	.59 %
	<u>1,279,295</u>	<u>6.64 %</u>	<u>734,181</u>	<u>4.43 %</u>

### c. Operational Self- Sufficiency Ratio:

The Operating Self Sufficiency ratio (Interest and Recovery / Operating expenses and additional provision for loan losses) measures how well the MD covers its cost through its operating activities. An increasing operating self-sufficiency ratio is positive.

	<u>2009</u>	<u>2008</u>
	<u>USD</u>	<u>USD</u>
<b>Interest and recovery</b>	<b>7,466,653</b>	<b>5,774,193</b>
<b>Operating expenses</b>	<b><u>6,022,771</u></b>	<b><u>5,171,482</u></b>
<b>Operating Self-Sufficiency Ratio</b>	<b><u>124 %</u></b>	<b><u>112 %</u></b>

The Operational Self-Sufficiency rate for each field for the years 2009 and 2008 were as follows:

<b>Field</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
<b>Gaza</b>	<b>97 %</b>	<b>95 %</b>
<b>West Bank</b>	<b>145 %</b>	<b>128 %</b>
<b>Jordan</b>	<b>109 %</b>	<b>100 %</b>
<b>Syria</b>	<b>124 %</b>	<b>108 %</b>

### d. Loan Officer Productivity:

Loan Officer Productivity (Number of Active Borrowers / Number of Loan Officers), the ratio measures the average caseload of each loan officer. An increasing Loan Officer Productivity ratio is positive.

	<u>2009</u>	<u>2008</u>
<b>Number of active borrowers</b>	<b>21,604</b>	<b>17,493</b>
<b>Number of loans officers</b>	<b><u>119</u></b>	<b><u>131</u></b>
<b>Loan Officer Productivity</b>	<b><u>182</u></b>	<b><u>134</u></b>

Loan officer productivity improved in 2009 as a result of the improvement in the economic situation in the West Bank and through management efforts to improve staff productivity.