

RYADA for Lending and Financial Services
CHF International
Ramallah - Palestine

Independent Auditors' Report and Financial Statements
for the Year Ended September 30, 2010

Talal Abu-Ghazaleh & Co.
Certified Public Accountants



Cooperative Housing Foundation
CHF International
Ramallah - Palestine

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Independent Auditors' Report

**M/s Board of Directors
CHF RYADA for Lending and Financial Services
Ramallah – Palestine**

We have audited the accompanying financial statements of CHF RYADA for Lending and Financial Services – Palestine- Ramallah, which comprise the statement of financial position as of September 30, 2010, and the statements of activities and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards accepted in the United States and the standards applicable to financial audits contained in the Government Audit Standards issued by the Comptroller General of the United States. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

- CHF policy is to use the modified cash basis; using this method, all income is registered when received- not when earned. Expenses are recognized when paid, and not when incurred (except for some cases related to withholdings and accrual of employee benefits).

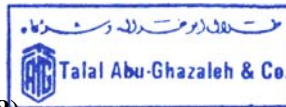
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CHF RYADA for Lending and Financial Services - Palestine as of September 30, 2010, and of its financial performance and its cash flows for the year then ended as described in Note (2).

In accordance with Government Auditing Standards, We have also issued our reports dated November 10, 2010 on our consideration of the CHF RYADA for Lending and Financial Services internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grants. Those reports are integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Talal Abu-Ghazaleh & Co.


Jamal Milhem
Certified Accountant License # (100/98)
Ramallah on November 10, 2010



CHF RYADA for Lending and Financial Services
Palestine- Ramallah

Statement of Financial Position as of September 30, 2010 **Exhibit (A)**

	Notes	September 30,	
		2010 USD	2009 USD
<u>Assets</u>			
Cash and Cash Equivalents	3	1,305,982	763,622
Loans Receivable, Net	4	11,205,401	11,398,622
Inter – Company Accounts Receivable		1,871	--
Other Receivable	5	20,667	25,281
Prepaid Rent		19,676	15,476
Security Deposits		30,000	30,000
Total Assets		12,583,597	12,233,001
 <u>Liabilities and Net Assets</u>			
<u>Liabilities</u>			
Inter – Company Accounts Payable		76,346	31,837
Accounts Payable	6	193,532	177,359
Long Term Loan	7	500,000	500,000
Provisions for Staff Benefits	8	335,483	414,587
Provision for Litigation and Claims	9	157,226	157,226
Total Liabilities		1,262,587	1,281,009
 <u>Net Assets</u>			
Net Assets - End of the Year (Exhibit “B”)		11,321,010	10,951,992
Total Liabilities and Net assets		12,583,597	12,233,001

"The accompanying notes constitute an integral part of these financial statements"

CHF RYADA for Lending and Financial Services
Ramallah -Palestine
Statement of Activities and Change in Net Assets for
the Year Ended September 30, 2010

Exhibit (B)

	Notes	For the year ended	
		2010	2009
		USD	USD
<u>Revenues and Support</u>			
Interest Income		83	19
Commission Income		361,391	263,744
Interest Income on Loans		1,745,071	1,707,079
Other Income		77,160	59,057
Total Revenues and Support		2,183,705	2,029,899
<u>Expenses</u>			
Operating Expenses	10	(1,305,786)	(1,000,851)
<u>Other Revenues and Expenses</u>			
Bad Debt Expenses	11	(225,114)	(247,503)
Bad Debt Recovery	11	348,295	781,322
		(1,182,605)	(467,032)
Change in Net Assets Before Other Items		1,001,100	1,562,867
<u>Other Items</u>			
Inter-Company funds transfer		(200,000)	(200,000)
Inter-Company expense – Billing		(424,416)	(417,883)
Expatriate Staff Benefits	12	(7,666)	(29,779)
Total Other Items		(632,082)	(647,662)
Change in Net Assets for the Year		369,018	915,205
Net Assets – Beginning of the Year		10,951,992	10,036,787
Net Assets – End of the Year – (Exhibit "A")		11,321,010	10,951,992

"The accompanying notes constitute an integral part of these financial statements"

CHF RYADA for Lending and Financial Services
Ramallah - Palestine
Statement of Cash Flows for the Year Ended
September 30, 2010

Exhibit (C)

	For the year ended	
	September 30,	
	2010	2009
	USD	USD
<u>Cash Flows from Operating Activities</u>		
Net Assets for the Year – Exhibit (B)	369,018	915,205
<u>Adjustments to Reconcile Change in Net Assets to Net Cash Provided from Operating Activities:</u>		
Increase (Decrease) in Provisions for Staff Benefits	(79,104)	86,819
(Increase) Decrease in Loans Receivable, Net	193,221	(888,366)
Increase (Decrease) in Inter-Company Payable	44,509	30,574
Decrease (Increase) in Other Receivable	4,614	134,795
(Decrease) Increase in Account Payable	16,173	(63,281)
(Increase) Decrease in Prepaid rent	(4,200)	(7,630)
(Increase) Decrease in Security Deposits	-	(29,827)
(Increase)Decrease in Inter-Company Receivables	(1,871)	-
Net Cash Flows from Operating Activities	542,360	178,289
<u>Cash Flows from Financing Activities</u>		
Change in Long – Term Loan	-	-
Net Cash Flows from Financing Activities	-	-
Net Increase / (Decrease) in Cash & Cash Equivalents	542,360	178,289
Cash and Cash Equivalents - Beginning of the Year	763,622	585,333
Cash and Cash Equivalents - End of the Year– Exhibit (A)	1,305,982	763,622

"The accompanying notes constitute an integral part of these financial statements"

CHF RYADA for Lending and Financial Services
Ramallah - Palestine
Notes to the Financial Statements

1. Cooperative Housing Foundation CHF International – Palestine/RYADA Program

- Cooperative Housing Foundation CHF International, (Palestine) was registered according to the Article 248 of the Companies Act of 1929 as amended as a Foreign Non Profit, making Organization under a serial registration number (563600915). CHF has several programs operating in the West Bank & Gaza , and RYADA is one of these programs.
- RYADA is a microfinance program of CHF International, a US-based international development nonprofit, nongovernmental organization (NGO). It was established on December 14, 1994, in light of the anticipated Palestinian microfinance law and the overall institutional goals, as a locally registered and managed Non-Bank Financial Institution (NBFi), to ensure the long-term provision of financial services in Palestine.
- RYADA, which means pioneer in Arabic, started in the Gaza Strip in 1994 as a project in coordination with the Palestinian Housing Authority with the first loan being disbursed in 1995. The original design was based on a bank downscaling model, but it has evolved into a program with its own portfolio. Over the years, RYADA has expanded in all aspects, geographically, programmatically and financially. In 2001, it expanded activities into the West Bank (WB) and in 2003 it moved into small business lending but on a very small scale.
- In 2008 it has decided to embark on the process of transforming RYADA from an INGO-owned project into a locally registered Development Finance Institution (DFI), the program name and logo were announced to be changed formally into RYADA, which was chosen to reflect the new vision of RYADA as a leader in providing demand-driven, diversified financial services in a stable, efficient and sustainable manner in order to improve the living conditions of the Palestinian people.
- On November 1 and 2, 2009, RYADA held its second strategic planning workshop in Ramallah with participants from each branch and the head office. The workshop sought to review the progress to date against the plan that was developed in 2007, and develop a new plan based on RYADA's current status. As a result of the strategic planning workshop the new vision for RYADA is:
"To be the pioneer in offering financial services to build societies". With no change on RYADA's mission which states that RYADA will be the leader in offering financial services in Palestine by:
 - Charging sustainable interest rates
 - Investigating demands of its target group
 - Building staff capacity and rewarding employees
 - Continuously growing its portfolio
 - Defining and providing best quality services
- RYADA is now one of the largest microfinance providers in West Bank and Gaza, its portfolio exceeds \$11 million with 5,400 active loans and (6) branch offices throughout the Palestinian Territories in Gaza, Hebron, Nablus, Tukrarkem, Jenin and Ramallah. RYADA program provides micro & small loans for home improvement, small business development, and consumer loans to low- and moderate- income Palestinians. It offers one to three- year loans with monthly payments to improve living conditions.
- RYADA has cooperative agreements with six banks working in Gaza Strip and West Bank.

❖ **KIVA agreement:**

- On July 10, 2008 RYADA signed KIVA agreement, whereas KIVA owns, operates, and maintains a web-based business and certain related intellectual property at www.kiva.org that allows website users throughout the world to connect with local lenders such as (CHF-RYADA) that provide small loans to individuals or groups in developing countries. A training on KIVA systems and how to run through the next steps of the set-up process in order to be ready, to begin fundraising on KIVA by November 2008 had been held during October 2008.
- During RYADA's first few months on KIVA, RYADA was in Pilot stage at the begging, where KIVA invited RYADA to rise up fundraising limit to \$30,000 each month. While currently, the fundraising limit was increased up to \$ 60,000 for each month, as RYADA managed successfully to move from Pilot to Active status, which generally leads to an increase in the monthly fundraising limit. RYADA was able to successfully posting borrower profiles with a total dollar value that is at or near the monthly fundraising limit, and KIVA must be confident that MFI fully understands and follows all of its policies to move the MFI from pilot to active status.

2. Summary of Significant Accounting Policies

Basis of Preparation

- Field operations are recorded on a modified cash basis. Using this method, all income is registered when cash is received- not when it is earned. Expenses are recognized when they are paid, and not when the obligation is incurred (except for some cases related to withholdings and accrual of employee benefits).
- The financial statements have been prepared under the historical cost.
- The financial statements are presented in US Dollars.

Purchase of Fixtures and Furniture/ Equipments and Computers:

Purchases of any furniture or equipment are expensed and are accordingly reflected in the statement of activities in the current year.

End of Service Indemnity

CHF RYADA – Palestine is required by the Labor Law to provide indemnity payments upon to the termination of relationship with its employees. The benefit is calculated at one month salary for each year of employee's service based on the latest salary.

Employees' Saving

,CHF RYADA – Palestine contributes 10% of the employees basic salaries in the employees' saving scheme while the employees' contributes with 5% of. The total amount 15% of staff basic salaries is recorded as employees' savings.

Provisioning Requirements for Delinquent Loans

CHF RYADA - Palestine used the following provisioning requirements for delinquent portfolio.

The allowance for bad debt is the higher of:

- a. 3% of total principle outstanding.
- b. The summation of the following:

Delinquent Portfolio

1-30 Days	10%
31-60 Days	30%
61-90 Days	30%
91-120 Days	60%
121-180 Days	60%
180 Days or More	100%

Foreign Currencies

- CHF RYADA – Palestine basic functional currency is the USD, transactions that are expressed or denominated in other currencies were converted to USD using the exchange rates in effect at the time of each transaction.

- Gains or losses arising from exchange differences are reflected in the statement of activities.

Litigation and Claims

CHF RYADA - Palestine has built a provision for litigation and claims for cases to meet the obligations of court decisions for legal issues may arise against the Program.

3. Cash and cash equivalents

- a. This item consists of:

	September 30,	
	2010	2009
	<u>USD</u>	<u>USD</u>
Cash on Hand	1,206	--
Arab Bank	50,282	10,325
Cairo Amman Bank	403,063	428,048
Bank of Palestine	524,485	233,846
Housing Bank	307,082	74,302
Egyptian Arab Land Bank	5,598	17,101
Al-Quds Bank	14,266	--
Total	<u>1,305,982</u>	<u>763,622</u>

- b. Cairo Amman Bank has executed a garnishment on (USD 158,000) of CHF's money according to the court decision to meet any expected obligations on CHF that may result from case no. (304/2004). This case belongs to one of CHF ex employee for work accident on January 14, 2004. The amount claimed is USD 157,226 and the case is still pending.

4. Loans Receivable, Net

- a. **Loans as per maturity as follows:**

	September 30, 2010	September 30, 2009
	<u>USD</u>	<u>USD</u>
Maturities less than 1 Year	7,470,300	3,952,394
Maturities over than 1 Year	4,081,659	8,046,156
	<u>11,551,959</u>	<u>11,998,550</u>
Allowance for Doubtful account	(346,558)	(599,928)
Total	<u>11,205,401</u>	<u>11,398,622</u>

- b. **Per Product, net of allowance of bad debts:**

	2010			2009		
	<u>Outstanding loans</u>	<u>Allowance</u>	<u>Net</u>	<u>Outstanding loans</u>	<u>Allowance</u>	<u>Net</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Small Business Loans	2,358,432	70,749	2,287,683	2,504,629	125,232	2,379,397
Housing Loans	8,519,140	255,578	8,263,562	9,312,703	465,635	8,847,068
Consumption Loans	674,387	20,231	654,156	181,218	9,061	172,157
Total	<u>11,551,959</u>	<u>346,558</u>	<u>11,205,401</u>	<u>11,998,550</u>	<u>599,928</u>	<u>11,398,622</u>

c. Geographical Distribution, net:

	2010			2009		
	<u>loans</u> USD	<u>Allowance</u> USD	<u>Net</u> USD	<u>loans</u> USD	<u>Allowance</u> USD	<u>Net</u> USD
Gaza						
Small Business Loans	903,268	27,098	876,170	622,249	31,112	591,137
Housing Loans	1,437,155	43,114	1,394,041	1,395,555	69,778	1,325,777
Consumption Loans	241,681	7,250	234,431	77,874	3,894	73,980
Subtotal	2,582,104	77,462	2,504,642	2,095,678	104,784	1,990,894
West Bank						
Small Business Loans	1,455,164	43,655	1,411,509	1,882,380	94,119	1,788,261
Housing Loans	7,081,985	212,460	6,869,525	7,917,148	395,857	7,521,291
Consumption Loans	432,706	12,981	419,725	103,344	5,168	98,176
Subtotal	8,969,855	269,096	8,700,759	9,902,872	495,144	9,407,728
Grand total	11,551,959	346,558	11,205,401	11,998,550	599,928	11,398,622

d. Gross loans Receivable by geographical

	2010		2009	
	USD	%	USD	%
Gaza	2,582,104	22%	2,095,678	17%
West Bank	8,969,855	78%	9,902,872	83%
Total	11,551,959	100%	11,998,550	100%

e. Gross loans Receivable by Product

	2010		2009	
	USD	%	USD	%
Small Business Loans	2,358,432	20%	2,504,629	21%
Housing Loans	8,519,140	74%	9,312,703	77%
Consumption Loans	674,387	6%	181,218	2%
Total	11,551,959	100%	11,998,550	100%

f. Loan loss allowance computation:

	<u>Outstanding loan</u> <u>portfolio share of</u> <u>Total %</u>	<u>Amount</u> USD	<u>Allowance</u> <u>loan loss%</u>	<u>Amount</u> USD
	A. Current Portfolio	83%	9,549,298	0%
B. Delinquent Portfolio				
1 to 30 days	14.5%	1,679,204	10%	167,920
31 to 60 days	1.4%	169,854	30%	50,956
61 to 90 days	0.4%	57,604	30%	17,281
91 to 120 days	0.5%	63,224	60%	37,934
121 to 180 days	0.2%	31,926	60%	19,156
181 days or more	0%	--	100%	--
Subtotal: Delinquent Loans	17%	2,001,812		293,247

C. Restructured Portfolio

0 days or less	0.004%	481	10%	48
1 to 30 days	0.000%	--	30%	--
31 to 60 days	0.001%	163	50%	82
61 to 90 days	0.000%	--	75%	--
91 days or more	0.002%	205	100%	205
Subtotal: Restructured Loans	0.007%	849		335
Total (A + B+ C) **	100%	11,551,959		**293,582

** The amount of total allowance in the aging schedule is less than 3% of total principle outstanding portfolio. Consequently, the program management increases the allowance in the amount of USD (52,976) to become USD (346,558) in order to meet the program policy regards the allowance for doubtful loans, which states that the allowance should not be less than 3% of total outstanding portfolio or the total of aging schedule if it higher than 3%.

g. **Movement on loan loss reserve during the year 2010**

	<u>Beginning</u> <u>September 30,</u> <u>2009</u>	<u>Additions</u>	<u>Total</u> <u>September 30,</u> <u>2010</u>
Gaza	USD	USD	USD
Small Business Loans	31,112	(4,014)	27,098
Housing Loans	69,778	(26,663)	43,115
Consumption Loans	3,893	3,357	7,250
Subtotal	104,783	(27,320)	77,463
West Bank			
Small Business Loans	94,119	(50,464)	43,655
Housing Loans	395,858	(183,398)	212,460
Consumption Loans	5,168	7,812	12,980
subtotal	495,145	(226,050)	269,095
Grand total	599,928	(253,370)	346,558

5. **Other Receivables**

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
CRO Receivables	--	1,712
EJP Receivables	--	1,388
GELI Receivables	--	2,333
LDRP Receivables	--	1,615
Bank of Palestine	1,980	9,700
Cairo Amman Bank	--	1,435
ARD Receivables	--	483
LGF Receivables	17,870	--
WFP/OPEC Receivables	--	6,615
Others	817	--
Total Accounts Receivable - Exhibit (A)	20,667	25,281

6. Accounts Payable

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
	<u>USD</u>	<u>USD</u>
Kiva Loans	168,291	119,889
Accrued expenses	6,134	37,475
Banks Payables	11,803	13,095
CRO and LDR Payables	--	1,987
Other Payables	7,304	4,913
Total Accounts Payable – Exhibit (A)	<u>193,532</u>	<u>177,359</u>

7. Long – Term Loan

This loan presents a loan granted through Cooperative Housing Foundation – CHF International- HQ to CHF RYADA, in the amount of (USD 500,000) for expanding CHF RYADA lending Program according to the Loan Agreement dated October 30, 2008. The annual interest rate is (4.5%) payable on a semi-annual basis and the principle repayment period is two years and nine months beginning September 12, 2008.

8. Provisions for Staff Benefits

	<u>Provision</u>	<u>Accrued</u>	<u>Total</u>
	<u>for End of</u>		
	<u>Saving</u>	<u>Interest</u>	<u>USD</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>
Balance on Oct 1, 2009	403,307	11,280	414,587
Additions	113,887	--	113,887
Uses	(188,598)	(4,393)	(192,991)
Balance on September 30, 2010	<u>328,596</u>	<u>6,887</u>	<u>335,483</u>

9. Provision for Litigation and Claims

This provision in the amount of USD 157,226 is created for a legal case that is still pending in court. Refer to Note No. 2, under Litigation and Claims.

10. Operating Expenses:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
	<u>USD</u>	<u>USD</u>
Wages and salaries expenses	654,487	528,482
Professional and legal expenses	62,123	10,992
Vehicles expenses	147,734	125,959
Cleaning and maintenance expenses	11,817	10,238
Travel and transportation expenses	66,538	26,505
Insurance expenses	11,517	15,214
Hospitality expenses	35,619	67,887
Postage and telecommunication expenses	55,932	35,491
Furniture and equipment expenses	46,204	960
Printings, Books, and Advertising expenses	35,944	15,297
Interest Expenses	24,226	--
Other operating expenses	153,645	163,826
Total Operating Expenses	<u>1,305,786</u>	<u>1,000,851</u>

11. Bad Debt Expenses

The bad debt expense balance on September 30, 2010 is credited in the amount of (USD 225,114) because of recovery/collection of previous written off bad loans with amount of (348,295) and to the improvement in the loan portfolio for 2010. The said improvement leads to reducing of the provision of the bad loans with amount of (USD 253,370).

12. Expatriate Benefits

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
	<u>USD</u>	<u>USD</u>
Housing & utilities allowance	7,434	22,462
Education allowances	232	7,317
Total allowances for expatriate staff	<u>7,666</u>	<u>29,779</u>

13. Comparative Figures

Certain balances as of September 30, 2009 were reclassified to conform to the current year presentation.

14. Risks Management Policies:

Management of risk is fundamental to the Microfinance Industry and is an essential element of the Microfinance operations. The main risks inherent to the Microfinance operations are:

- Credit risk
- Operational risk
- Liquidity risk
- Market risk
- Country risk
- Political Risk

RYADA program for lending and financial services recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the program has established a risk management framework, whose main purpose is to protect RYADA from risk and allow it to achieve its performance objectives. Through the risk management framework, RYADA manages the following risks:

A. Credit risk

RYADA is exposed to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit committee and the Program's Management. Before any application is committed by the loan officers, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Branch Management.

Daily risk management is performed by the Operations Department. RYADA has developed policies and procedures for the management of credit exposures including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Program's credit risk. The Program establishes limits on the amount of risk accepted in relation to loan products.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by adjusting these lending criteria where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored and evaluated on a continuous basis and

subject to annual or more frequent reviews by the program management and the internal audit department.

In order to face this risk RYADA follows up with the borrowers extensively in order to collect all amounts due. In addition, RYADA calls the guarantors and visits their places of work to collect overdue loans.

If the previous procedures were proven to be failures then RYADA will file a claim in the court of law.

Policies of the Program geographical distribution of portfolio to diversify risk can be added. For instance to minimize credit risk from deteriorating political situation Microfinance institutions limited disbursement in Gaza and limited high value loans in particular areas of the west bank.

B. Operational risk

The program is exposed to operational risk, which is the risk of losses that can be a result of any system inefficiencies or breaks of internal process, systems, presence of human error or effect of any external negative factor.

The Program's risk management policies are designed to identify and analyze this risk to set appropriate risk limits and controls.

C. Liquidity Risk

Liquidity risk refers to availability of funds to repay liabilities as they fall due and meeting the demand in cash in the process of crediting customers.

The Management controls these types of risks by means of maturity analysis, determining the Program's strategy for the next financial period. Current liquidity is managed by the Financial Manager, which supports current liquidity on sufficient level to minimize the liquidity risk.

D. Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Program is exposed. The Program is exposed to interest rate risks as the institution has borrowed funds at a fixed rate.

Another risk faced by the Program is currency risk, which is defined as the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. However, the institution is mitigating this risk by maintaining all its financial contracts in the same currency of loan repayments.

E. Country Risk

Is the risk 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.

The Financial Manager at the Program with the lawyer coordinates all legal issues with related departments to ensure the viability of the collateral undertaken by the Program.

F. 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 emergencies. For RYADA –as well as all financial institutions in Palestine– faces the risk of unstable political situation in West Bank and GAZA.

10- Portfolio Quality:**a. Portfolio-at-Risk (PAR):**

RYADA main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the allowance for loan loss).

Loans are considered overdue if any payment has fallen due and remained unpaid. Loan repayments are applied first to any installment of principal that is due but unpaid and then to any interest due, beginning with the earliest such installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid. The Program does not convert late or penalty interest into principal.

	<u>2010</u>		<u>2009</u>	
	Portfolio At Risk (PAR)	Outstanding Principal at Risk	Portfolio At Risk (PAR)	Outstanding Principal at Risk
Days in Arrears				
A. Current Portfolio	83%	9,549,298	82%	9,842,628
B. Delinquent Portfolio				
1 to 30 days	14.5%	1,679,204	10.5%	1,217,390
31 to 60 days	1.4%	169,854	1.6%	184,990
61 to 90 days	0.4%	57,604	1.1%	121,780
91 to 120 days	0.5%	63,224	0.8%	89,219
121 to 180 days	0.2%	31,926	1.1%	124,082
180 days or more	0.0%	--	3.2%	373,146
Subtotal: Delinquent Loans	17%	2,001,812	18%	2,110,607
C. Restructured Portfolio				
0 days or less	0.004%	481	0.093%	10,788
1 to 30 days	0.000%	--	0.085%	9,846
31 to 60 days	0.001%	163	0.071%	8,183
61 to 90 days	0.000%	--	0.038%	4,347
91 days or more	0.002%	205	0.105%	12,151
Subtotal: Restructured Loans	0.007%	849	0.4%	45,315
Total (A + B + C)	100%	11,551,959	19%	11,998,550

b. Portfolio in Arrears Ratio:

For each class of loans, the payments in arrears of such loans are divided by the outstanding principal balance of the gross loan portfolio (that is, before deducting the allowance for loan loss).

Outstanding Balance	2010		2009	
	USD 11,551,959		USD 11,998,550	
Days in Arrears	<u>Portfolio in</u> <u>Arrears Ratio</u>	<u>Payment in</u> <u>Arrears</u>	<u>Portfolio in</u> <u>Arrears</u> <u>Ratio</u>	<u>Payment in</u> <u>Arrears</u>
Current Portfolio	%	USD	%	USD
A. Delinquent Portfolio				
1 to 30 days	1.1%	123,968	0.7%	76,208
31 to 60 days	0.3%	30,063	0.3%	29,178
61 to 90 days	0.1%	15,703	0.2%	28,525
91 to 120 days	0.2%	21,312	0.2%	25,543
121 to 180 days	0.2%	18,687	0.6%	63,765
180 days or more	0.0%	--	2.4%	280,938
Subtotal: Delinquent Loans	1.9%	209,733	4.4%	504,157
B. Restructured Portfolio				
0 days or less	0.000%	--	0.000%	--
1 to 30 days	0.000%	--	0.005%	625
31 to 60 days	0.001%	163	0.011%	1,218
61 to 90 days	0.000%	--	0.011%	1,218
91 days or more	0.001%	205	0.035%	4,255
Subtotal: Restructured Loans	0.2%	368	0.062%	7,316
Total (A + B)	2.1%	210,101	4.462%	511,473

d. Loans at Risk (LAR)

This ratio is calculated by dividing the number of loans at risk by the total number of loans outstanding, this ratio helps in indicating whether the larger or smaller loans result in greater delinquency.

	<u>2010</u>	<u>2009</u>
No of loans at risk >30	243	774
Total No. of loans	5,510	5,397
Loans at Risk%	4%	14%

e. Loan Loss Ratio (LLR)

The loan loss ratio is calculated to determine the rate of loan losses for a specific period. The loan loss ratio reflects only the amounts written off in a period. It provides an indication of the volume of loan losses in a period relative to the average portfolio outstanding. (Amount written off in the period/ Portfolio outstanding for the period)

	<u>2010</u> <u>USD</u>	<u>2009</u> <u>USD</u>
Amounts written off	479,216	160,109
Portfolio outstanding	11,551,959	11,998,550
Loan Loss Ratio (LLR)	4%	1%

f. **Financial Viability Ratio – Operating Self Sufficiency Ratio:**

Generating enough operating revenue to cover operating expenses, financing costs and provision for loan losses is operating self-sufficiency:

	<u>2010</u> <u>USD</u>	<u>2009</u> <u>USD</u>
Income From Operations	2,104,091	1,970,823
Operating Expenses and provision for loan losses	1,613,084	914,694
Operating Self Sufficiency	1.3	2.15

g. **Productivity and Efficiency Ratios:**

i. Number of Active Borrowers per credit officers: indicates the performance of loan officers and the efficiency in using resources.

	<u>2010</u>	<u>2009</u>
Number of active borrowers	5,510	5,397
Number of credit officers	21	17
	262	317

ii. Number of Active borrowers per management staff: Indicates performance of management and efficiency of methodology used.

	<u>2010</u>	<u>2009</u>
Number of active borrowers	5,510	5,397
Number of Management staff	28	10
	197	540

iii. Portfolio per credit officer: Indicates potential financial productivity of loan officer

	<u>2010</u>	<u>2009</u>
Total outstanding Portfolio	11,551,959	11,998,550
Number of credit officers	21	17
	550,093	705,797

iv. Average loan amount: may indicate how poor are your clients

	<u>2010</u>	<u>2009</u>
Total outstanding Portfolio	11,551,959	11,998,550
Number of active borrowers	5,510	5,397
	2,097	2,223

v. Cost per loan Made: indicates efficiency in disbursing loans

	<u>2010</u>	<u>2009</u>
Total Operating Expenses & provision for loan losses	1,613,084	914,694
Volume of Loans Disbursed	10,141,198	9,742,177
	6.29%	10.65%

Independent Auditors' Report on Internal Control

**M/s Board of Directors
Ryada Program for Lending and Financial Services
CHF International
Ramallah - Palestine**

We have audited the financial statements of **Ryada Program for Lending and Financial Services - CHF International** , and for the year ended September 30, 2010 and have issued our report thereon dated November 10, 2010

We conducted our audit in accordance with the Generally Accepted Auditing Standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of **Ryada Program for Lending and Financial Services - CHF International** is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with managements' authorization and recorded properly to permit the preparation of the financial statements in accordance with the basis of accounting described in note (2) to the financial statements. Because of the inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods are subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statement of Ryada Program for Lending and Financial Services - CHF International for the year ended September 30, 2010, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not provide an opinion on the internal control structure, Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the U.S Government. A material weaknesses is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions.



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We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of **Ryada Program for Lending and Financial Services - CHF International** in a separate letter dated November 10, 2010.

This report is intended to the management of **Ryada Program for Lending and Financial Services - CHF International** and CHF International – Washington.

Talal Abu-Ghazaleh & Co.


Jamal Milhem

Certified Accountant License # (100/98)

Ramallah, November 10, 2010



Independent Auditors' Report on Compliance

**M/s Board of Directors
Ryada Program for Lending and Financial Services
CHF International
Ramallah - Palestine**

We have audited the financial statements of **Ryada Program for Lending and Financial Services - CHF International** as of and for the year ended September 30, 2010 and have issued our report thereon dated November 10, 2010.

We conducted our audit in accordance with the Generally Accepted Auditing Standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with agreement terms and laws and regulations applicable to **Ryada Program for Lending and Financial Services - CHF International** is the responsibility of **Ryada Program for Lending and Financial Services - CHF International's** management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of **Ryada Program for Lending and Financial Services - CHF International's** compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such opinion.

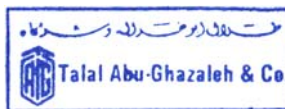
The results of our tests indicate that, with respect to the items tested, **Ryada Program for Lending and Financial Services - CHF International** complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that **Ryada Program for Lending and Financial Services - CHF International** had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of **Ryada Program for Lending and Financial Services - CHF International** in our management letter dated on November 10, 2010.

This report is intended to the management of Program for Lending and Financial Services - CHF International and CHF International – Washington.

Talal Abu-Ghazaleh & Co.


Jamal Milhem



Certified Accountant License # (100/98)

Ramallah, November 10, 2010



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