

**Palestine for Credit and Development Company – (FATEN)**  
**Non for Profit Private Shareholding Co.**  
**Ramallah - Palestine**

**Independent Auditor’s Report & the Financial Statements**  
**For the year ended December 31, 2010**

**Palestine Auditing & Accounting Co.**  
**“Abbasi & Co”**  
**“Members Of (POLARIS International) ”**  
**“Certified Accountants & Financial Consultants”**

**Palestine for Credit and Development Company – (FATEN)**  
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## **Independent Auditor's Report**

**To M/S Shareholders of Palestine for Credit and Development Company – (FATEN)  
Ramallah - Palestine**

### **Report on the financial Statements**

We have audited the accompanying financial statements of **Palestine for Credit and Development Company (FATEN)** which comprise of the statement of the financial position as of December 31, 2010, statement of comprehensive income, statement of changes in owner's equity & statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

The opening balances were audited by certified accountant who issue an unqualified opinion on March 9, 2010.

### **Managements Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### **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 International Standards on Auditing. 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 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 used 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 over all 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.

**Opinion**

In our opinion, the financial statement present fairly, in all material respect the financial position of **Palestine for Credit and Development Company (FATEN)** as of December 31, 2010 and it's financial performance and it's cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Yusef Mohammad Hammodeh**

**License NO. 103/98**

*Yusef M. Hammodeh*

**Ramallah on February 20, 2011**



**Palestine for Credit and Development Company – (FATEN)**  
**Non for Profit Private Shareholding Co.**  
**Ramallah - Palestine**

**Statement of Financial Position as of December 31, 2010** **Exhibit A**  
**“Amounts appear in “USD”**

<b><u>Assets</u></b>	<b><u>Note</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Cash and cash equivalents	(3)	1,588,797	1,910,303
Loans and Murabaha, Net	(4)	19,404,238	15,464,117
Donors Receivables		129,602	173,371
Deferred interest on commercial loans		330,680	216,675
Other current assets	(5)	109,435	46,096
Property, plant & equipment, net	(6)	<u>421,557</u>	<u>384,980</u>
<b>Total assets</b>		<b><u>21,984,309</u></b>	<b><u>18,195,542</u></b>
<b><u>Liabilities and Owners Equity</u></b>			
Short term loans	(7)	1,321,439	665,400
Unearned interests		1,583,489	1,522,812
Other current liabilities	(8)	101,852	40,086
Long-term loans	(7)	3,244,588	1,947,371
Employees provisions	(9)	<u>962,344</u>	<u>902,698</u>
<b>Total liabilities</b>		<b><u>7,213,712</u></b>	<b><u>5,078,367</u></b>
<b><u>Owners Equity</u></b>			
Paid-in capital	(1)	10,000	10,000
Accumulated donations	(10)	15,214,986	15,179,533
Accumulated losses		<u>(454,389)</u>	<u>(2,072,358)</u>
<b>Net Owners Equity</b>		<b><u>14,770,597</u></b>	<b><u>13,117,175</u></b>
<b>Total Liabilities and Owners Equity</b>		<b><u>21,984,309</u></b>	<b><u>18,195,542</u></b>

*"The accompanying notes constitute an integral part of this statement"*

**Chairman**

**General Manager**

**Palestine for Credit and Development Company – (FATEN)**  
**Non for Profit Private Shareholding Co.**  
**Ramallah - Palestine**  
**Statement of Comprehensive Income for the year ended**  
**December 31, 2010**                      **Exhibit (B)**  
**“Amounts appear in “USD”**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<b><u>Revenues</u></b>			
Interests & commissions on loans		2,514,279	1,821,562
Profit on Murabaha		477,174	294,082
Commission revenues		1,798	1,307
<b>Net interest &amp; commission income</b>		<b><u>2,993,251</u></b>	<b><u>1,643,069</u></b>
<b><u>Other operating revenues</u></b>			
Collection of loans previously written-off		30,132	33,177
Application fees		444,385	16,284
Penalty fees and others		32,709	707
Bank interests		2,266	11,323
Other revenues	(11)	<u>20,419</u>	<u>106,545</u>
<b>Total other operating revenues</b>		<b><u>529,911</u></b>	<b><u>168,036</u></b>
<b>Total operating revenues</b>		<b><u>3,523,162</u></b>	<b><u>2,284,987</u></b>
<b><u>Operating expenses</u></b>			
Depreciation		(49,375)	(42,441)
Provision for loans & murabaha losses		(11,182)	(473,882)
Operating and administrative expenses	(12)	<u>(1,800,014)</u>	<u>(1,313,404)</u>
<b>Total operating expenses</b>		<b><u>1,860,571</u></b>	<b><u>1,829,727</u></b>
<b>Net operating profits – Exhibit "C"</b>		<b><u>1,662,591</u></b>	<b><u>455,260</u></b>
Grants to subsidies operations – Exhibit "C"		-----	184,473
<b>Net profit after grants</b>		<b><u>1,662,591</u></b>	<b><u>639,733</u></b>

*"The accompanying notes constitute an integral part of this statement"*

**Chairman**

**General Manager**

**Palestine for Credit and Development Company – (FATEN)**  
**Non for Profit Private Shareholding Co.**  
**Ramallah - Palestine**  
**Statement of Changes in Owners Equity for the year**  
**ended December 31, 2010**      **Exhibit (C)**  
**“Amounts appear in “USD”**

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	<u>Paid in</u> <u>capital</u>	<u>Accumulated</u> <u>donations</u>	<u>Accumulated</u> <u>Losses</u>	<u>Total</u>
<b><u>December 31, 2010</u></b>				
<b>Balance as at 1/1/2010</b>	<b>10,000</b>	<b>15,179,533</b>	<b>(2,072,358)</b>	<b>13,117,175</b>
Donations recorded directly in the financial position	-----	35,453	-----	35,453
Prior years adjustments	-----	-----	(44,622)	(44,622)
Net operating profit for the year	-----	-----	<u>1,662,591</u>	<u>1,662,591</u>
<b>Balance as at 31/12/2010</b>	<b><u>10,000</u></b>	<b><u>15,214,986</u></b>	<b><u>(454,389)</u></b>	<b><u>14,770,597</u></b>
<b><u>December 31, 2009</u></b>				
<b>Balance as at 1/1/2009</b>	<b>10,000</b>	<b>14,945,460</b>	<b>(2,527,618)</b>	<b>12,427,842</b>
Donations recorded directly in the financial position	-----	49,600	-----	49,600
Donation grants recorded directly in the income statement	-----	184,473	-----	184,473
Net operating profit for the year	-----	-----	455,260	455,260
<b>Balance as at 31/12/2009</b>	<b><u>10,000</u></b>	<b><u>15,179,533</u></b>	<b><u>(2,072,358)</u></b>	<b><u>13,117,175</u></b>

*"The accompanying notes constitute an integral part of this statement"*

Chairman

General Manager

**Palestine for Credit and Development Company – (FATEN)**  
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**Ramallah - Palestine**  
**Cash Flows Statement for the year ended December 31, 2010 Exhibit (D)**  
**“Amounts appear in “USD”**

<b><u>Operating activities</u></b>	<b><u>Note</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Net operating profit– Exhibit - B		1,662,591	455,260
<b><u>Adjustments to reconcile net profit to net cash flows</u></b>			
<b><u>Non cash items</u></b>			
Depreciation		49,375	42,441
Prior years adjustments		(44,622)	-----
Provision for loan & murabaha losses		189	417,742
Gain on sales of property, plant & equipment		(851)	(138)
Employees provisions		299,608	162,004
<b><u>Changes in current assets and current liabilities:</u></b>			
(Increase) in loan & murabaha portfolio		(3,940,310)	(5,432,290)
Increase(decreases) in donors receivables		43,769	(173,371)
(Increase) in other current assets		(63,339)	(5,441)
(Increase) in differed interest on commercial loans		(114,005)	(159,675)
Increase in unearned interest		60,677	555,102
Increase (decrease) in other current liabilities		61,766	(63,615)
Employees’ provisions paid		(239,962)	(48,503)
<b>Net cash flows used in operating activities</b>		<b><u>(2,225,114)</u></b>	<b><u>(4,250,484)</u></b>
<b><u>Cash flows from investing activities:</u></b>			
Purchase of property, plant & equipment		(92,832)	(33,629)
Proceeded from sale of property, plant & equipment		<u>7,731</u>	<u>354</u>
<b>Net cash used in investing activities</b>		<b><u>(85,101)</u></b>	<b><u>(33,275)</u></b>
<b><u>Cash flows from financing activities</u></b>			
Donations and grants		35,453	234,073
Loans		<b><u>1,953,256</u></b>	<b><u>1,405,771</u></b>
<b>Net cash provided from financing activities</b>		<b><u>1,988,709</u></b>	<b><u>1,639,844</u></b>
Net decrease in cash and cash equivalents		(321,506)	(2,643,915)
Cash and cash equivalents beginning of the year		<u>1,910,303</u>	<u>4,554,218</u>
<b>Cash and cash equivalents ending of the year</b>	(3)	<b><u>1,588,797</u></b>	<b><u>1,910,303</u></b>

*"The accompanying notes constitute an integral part of this statement"*

**Chairman**

**General Manager**

**Palestine for Credit & Development Company (FATEN)**  
**Non for Profit Private Shareholding Co.**  
**Ramallah – Palestine**  
**Notes on the Financial Statements**  
**“Amounts appear in “USD”**

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**1. Background:**

- Palestine for Credit and Development Company (FATEN) was part of Save the Children Federation – West Bank and Gaza. On July 14, 1998, FATEN was registered as a Private limited liability not for Profit Corporation in Gaza under registration number 563124478 in accordance with the Companies' Law of 1929. FATEN has commenced its operations on March 1, 1999.  
FATEN has branches in Ramallah, Hebron, Beithlihem, Nablus, Jenin, Tulkarem, Qalqilia, Gaza, Jabalya and Rafah,
- FATEN's authorized paid capital is 10,000 USD at par value USD 1 each share.
- The governmental controlling party is the Ministry of Economy.
- The main objectives of FATEN are the following:
  - Providing Palestinian micro-entrepreneurs with sustainable access to financial services.
  - Offering diverse credit products and other financial services.
  - Achieving qualitative and effective capacity and clients' services.
- The number of employees of the company is 73 as at December 31, 2010 and 62 employees as at December 31, 2009.
- These financial statements were approved by the board of directors on March 27, 2011

**2. Significant accounting policies:**

**a. Basis of preparation:**

- The financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Boards (IASB), except for interest on group loans, which are accounted for when received, rather than when earned. The accounting records are maintained in USD the accounting policies used are consistent with those used previously.
- The company adopted the following standards in preparing the financial statement for the year ended December 31, 2010:
- International Accounting Standard (1) Revised "Presentation Of Financial Statements" issued by the International Accounting Standard Committee and revised during the month of May 2008 which has become compulsory as of the financial statements beginning in January 2009 amendment required to view "comprehensive income" which includes changes in equity for non-shareholders, presentation of comprehensive through one statement represents the income in addition to all the changes of equity for non-shareholders or through a statement of income and other for comprehensive income. The company decided to present comprehensive income through statement of comprehensive income.

**b. Changes in accounting polices:**

- The International Accounting Committee issued changes on International Accounting Standards, which became valid on January 2007, applying these standards is the responsibility of the management, management take into consideration these issues & adjustments on Accounting Standards, in management believe these standards issued have no important effect on the financial statements in current periods.
- IFRS 1 and IAS27, cost of an investment in a subsidiary, jointly - controlled entity or associate.
  - IFRS 3, "Business combinations".
  - IAS 27 "Consolidated and separate financial statements".
  - IAS 39, "Financial instruments: Recognition and measurement – Eligible hedged items" .

- IFRIC 17 Distributions of Non – cash Assets to owners.
- IFRIC 18.Improvements on IFRS  
In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

**Issued in April 2009.**

**IFRS 8 Operating Segments:**

Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the company chief operating decision maker does review segment assets and liabilities, the company has continued to disclose this information.

Other amendments resulting from improvements to IFRS s to the following standards did not have any impact on the accounting policies, financial position or performance of the company:

- IFRS 2 :Share-based Payment
- IFRS 5 :Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 :Presentation of Financial Statements
- IAS 7 :Statement of Cash Flows
- IAS 17 :Leases
- IAS 34 :Interim Financial Reporting
- IAS 36 :Impairment of Assets
- IAS 38 :Intangible Assets
- IAS 39 :Financial Instruments: Recognition and Measurement
- IFRIC 9 :Reassessment of Embedded Derivatives
- IFRIC 16 :Hedge of a Net Investment in a Foreign Operation

**The following amendments and interpretations became effective in 2010, but were not relevant for the company operations.**

	<b>Effective date</b>
• IFRIC 14 :Prepayments of a minimum funding requirement (Amendment)	1,January 2011
• IFRIC 19 :Extinguishing Financial Liabilities with Equity Instruments	1,January 2011
• IAS 24 :Related Party Disclosures (Revised)	1,January 2011
• IAS 32 :Financial Instruments: Presentation - Classification of Rights Issues (Amendment)	1,January 2011
• IFRS 9 :Financial instruments part 1 : Classification and measurement	1,January 2011

These interpretations have no effect on the financial statement of the company for the year ended December 31, 2010.

**c. Use of Estimates:**

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect reported assets and liabilities as well as reported income and expenses for each year. A material estimate that is particularly susceptible to significant changes relates to the determination of provisions for loan losses.

**d. Loans & Murabaha:**

Loans & Murabaha are reduced by the provision for doubtful loans. Management evaluates the adequacy of the provision for doubtful loans regularly. Factors considered in evaluating the adequacy of the provision include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, and the performance of individual loans in relation to contract terms.

The provision for doubtful loans charged to expenses is based on management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb losses.

The timetable of the loans will be taken in consideration:

<u>Loan status</u>	<u>Provision percentage</u>
1 to 30 days overdue	10%
31 to 60 days overdue	50%
61 to 90 days overdue	75%
91 to 180 days overdue	100%

1. The provision for loan losses is being evaluated on a monthly basis in order to have enough provision to face the expected loss from doubtful loans. The company used the percentages of 12% in 2007 (8% in 2006) of the total portfolio, and the company used the same rate in 2008 till mid 2009 & at the end of 2010 of 8.08%.

The management keeps the provision for doubtful loans & murabaha without any change in order to reach the same value of the provision according to the aging schedule of the loans or 5% of the value of the active portfolio which is higher.

The management will use one of the two choices (a or b) based on the qualified conclusions, which is higher.

2. FATEN is not a licensed financial intermediary, therefore; its provision policy is based on management's analysis of the historical performance of the overdue portfolio, age by the same categories rather than on Palestine Monetary Authority Regulation.

Written-off loans are charged against the provision for loan losses when management believes that the principal is unlikely to be collected, and is being monitored separately from portfolio.

### **3. Rescheduling of loans and Murabaha:**

The company's in some special cases reschedule some loans because of illness or other emergency reasons against the borrower. It will be done either by increasing loan period or repayment schedule or both for the remaining loan balance for reschedule fee 1% per year.

#### **e. Loans guarantees:**

These items consist of:

- Performance loans: the group guarantees
- Individual, Individual II, Murabaha, Housing and Family guarantee: salary guaranteed transfer and sponsor person, gold and post dated checks and other.
- NGOs and its staff loans the guarantee of employees provisions, and Provident fund.

#### **f. Property, Plant & equipment:**

Property, plant & equipment are stated at cost on the date of acquisition or, in the case of gifts, at fair market value at date of donation. Depreciation is computed on a straight-line basis over the useful lives of the property and equipment using the following annual depreciation rates:

1. Building 2%
2. Computers 20-25%
3. Furniture 15%
4. Office equipments 15%
5. Vehicles 15%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**g. Interest Revenues:**

FATEN used accrual basis to calculate the credit interest for all loans & murabaha, and then calculated the interest rate as time average basis after take the amount of balance and interest. After three months of accrued installment payment, no interests will be calculating for individual loans.

**h. Donations & grants:**

- Donations to subsidize operating and administrative expenses are recorded in the statement of income as grant income.
- Donations to finance lending operations or the purchase of plant & equipment are shown as direct additions to equity and the corresponding asset account.

**i. Expenses recognitions:**

Expenses are recognized when incurred based on the accrual basis of accounting.

**j. Employees provision:**

FATEN provides for employees' end of service benefits by accruing for one-month compensation for each year of service based on the last salary paid during the year, in accordance with labor law prevailing in Palestine. FATEN also provides employees a provident fund. Total contributions by the employees and FATEN are set at 10%, and the company at 15% according to board resolution on 19/3/2010.

**k. Foreign currency translation:**

The books of accounts are maintained in US Dollars (USD), transactions which are denominated in other currencies are converted into (USD) using the prevailing exchange rates at the date of the transactions.

Monetary assets and liabilities, which are denominated in foreign currencies, are translated into USD using the prevailing exchange rates at the financial position date. Exchange differences arising from these translations are recorded in the statement of income.

Exchange rates against (USD) as of the financial position date were as follows:

	<u>2010</u>	<u>2009</u>
	<u>USD</u>	<u>USD</u>
- JD	1.408	1.408
- NIS	0.279	0.267

**3. Cash and cash equivalents:**

a. This item consists of:

	<u>2010</u>	<u>2009</u>
Cash on hand	3,068	3,068
Cash at banks – NIS	18,537	21,171
Cash at banks – JD	24,262	95,367
Cash at banks – USD	701,892	1,014,517
Deposit at banks – USD	-----	56,819
Deposits restricted for employees' Indemnity	<u>841,038</u>	<u>719,361</u>
<b>Total</b>	<b><u>1,588,797</u></b>	<b><u>1,910,303</u></b>

#### 4. Loan & Murabaha, net portfolio:

a. By type of loans:

	<u>2010</u>	<u>2009</u>
Housing loans	1,899,766	2,185,633
Family loans	6,512,480	5,525,095
Start up loans	6,020,810	3,474,675
Murabaha	4,468,551	4,826,481
Group loans	1,647,351	796,226
Pioneer loans	323,728	125,508
reschedule loans	46,319	-----
<b>Sub-total</b>	<b>20,919,005</b>	<b>16,933,618</b>
Employees' loans	163,290	195,001
NGOs' employees' loans	27,483	40,849
<b>Total</b>	<b>21,109,778</b>	<b>17,169,468</b>
Provision for loan murabaha losses	<u>(1,705,540)</u>	<u>(1,705,351)</u>
<b>Loans &amp; murabaha portfolio – net</b>	<b><u>19,404,238</u></b>	<b><u>15,464,117</u></b>

b. The amount of USD 21,109,778 includes the amount of USD 72,422 as loans with accrued installments over 90 days recording without the accrued interest for the period after 90 days.

c. Loans by geographical area:

<u>Area</u>	<u>2010</u>			<u>2009</u>		
	<u>Outstanding balance</u>	<u>Provision for Loan &amp; murabaha losses</u>	<u>Net realizable value</u>	<u>Outstanding balance</u>	<u>Provision for Loan &amp; murabaha losses</u>	<u>Net realizable value</u>
North Area – West Bank	8,998,427	(580,048)	(9,578,475)	7,795,395	(580,048)	7,215,347
South area – West Bank	7,528,711	(556,332)	8,085,043	6,737,159	(556,332)	6,180,827
Central area – West Bank	190,773	-----	190,773	235,780	-----	235,780
Gaza strip	<u>3,255,487</u>	<u>(569,160)</u>	<u>2,686,327</u>	<u>2,401,134</u>	<u>(568,971)</u>	<u>1,832,163</u>
<b>Total</b>	<b><u>21,109,778</u></b>	<b><u>(1,705,540)</u></b>	<b><u>19,404,238</u></b>	<b><u>17,169,468</u></b>	<b><u>(1,705,351)</u></b>	<b><u>15,464,117</u></b>

d. **The movement on loans & murabaha receivable during 2010 was as follows:**

<u>Description</u>	<u>Beginning balance</u>	<u>Issued</u>	<u>Repaid</u>	<u>Loans written-off</u>	<u>Ending balance</u>
“Al-Qard Al-Hasan	70	-----	(70)	-----	-----
“Morabaha “	4,826,481	1,978,358	(2,336,288)	-----	4,468,551
Start up loans	3,474,675	7,279,940	(4,733,805)	-----	6,020,810
Family loans	5,525,095	5,557,700	(4,570,315)	-----	6,512,480
Housing loans	2,185,633	1,411,500	(1,697,367)	-----	1,899,766
Group loans	921,734	2,255,816	(1,217,653)	11,182	1,971,079
Employees' loans	194,931	126,850	(158,491)	-----	163,290
NGO's employees' loans	40,849	52,240	(65,606)	-----	27,483
Schedule loans	-----	46,319	-----	-----	46,319
<b>Total</b>	<b><u>17,169,468</u></b>	<b><u>18,708,723</u></b>	<b><u>(14,779,595)</u></b>	<b><u>11,182</u></b>	<b><u>21,109,778</u></b>

e. FATEN has loans for related party (BOD members, with USD 18,600), and employee loans are guarantee with end of services, indemnity and provident fund.

- f. **Portfolio quality:**  
This item consists of:

	<u>Dec – 10</u>		<u>Dec – 09</u>	
	<u>Outstanding principal balance</u>		<u>Outstanding principal balance</u>	
	<u>PAR %</u>	<u>Amount \$</u>	<u>PAR %</u>	<u>Amount \$</u>
Good loans	84.12%	17,758,570	90.41%	15,525,005
<b><u>Doubtful loans &amp; murabaha</u></b>				
1-30 Days late	14.54%	3,068,771	7.01%	1,202,736
31-60 Days late	0.71%	149,242	1.74%	298,557
61-90 Days late	0.29%	60,273	0.39%	67,266
91-180 Days late	0.21%	43,362	0.33%	55,935
181-360 Days late	0.14%	29,560	0.12%	19,770
<b>Total Doubtful loans &amp; murabaha</b>	<b>15.88%</b>	<b>3,351,208</b>	<b>9.59%</b>	<b>1,644,264</b>
<b>Total</b>	<b>100%</b>	<b>21,109,778</b>	<b>100%</b>	<b>17,169,269</b>

- g. The movement in the provision for loans & murabaha losses during the year was as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of the year	1,705,351	1,287,609
Adjustments on the provision (currency differences)	189	473,881
Written-off loans	-----	(56,140)
<b>Total</b>	<b>1,705,540</b>	<b>1,705,351</b>

- h. The loan portfolio as at Dec. 31, 2010 distributed by maturity as follows:

	<u>2010</u>	<u>2009</u>
<b><u>Description</u></b>		
Up to one year	12,728,574	6,993,357
From one year to 2 years	5,864,700	6,206,204
Over two years	2,516,504	3,969,907
<b>Total</b>	<b>21,109,778</b>	<b>17,169,468</b>

- The management of FATEN wrote-off loans totaling USD 648,687 during the years from 2000 up to 2010.
- The collected amount of written-off loans totaling USD 420,247 during the same period which is 65% of total written off loans.
- The balance of written-off loans as at December 31, 2010 was USD 228,439.

- i. Major of the outstanding portfolio currency is USD except of group loans currency is JOD compared with fixed exchange rate against USD.

5. **Other current assets:**

This item consists of:

	<u>2010</u>	<u>2009</u>
<b><u>Description</u></b>		
Prepaid expenses	16,514	11,699
PMA insurances	30,000	-----
Interest receivables	62,921	34,397
<b>Total</b>	<b>109,435</b>	<b>46,096</b>

6. **property, Plant & equipment:**

A. This item consists of:

	<u>Buildings</u>	<u>Computers</u>	<u>Furniture</u>	<u>Office equipments</u>	<u>Vehicles</u>	<u>Total</u>
<b><u>Description</u></b>						
<b><u>At cost:</u></b>						
<b>Balance as at 1/1/2010</b>	<b>319,846</b>	<b>120,357</b>	<b>76,131</b>	<b>156,816</b>	<b>77,083</b>	<b>750,233</b>
Additions	28,573	12,922	24,135	27,202	-----	92,832
Disposals	-----	<u>(17,479)</u>	<u>(6,029)</u>	<u>(8,993)</u>	-----	<u>(32,501)</u>
<b>Balance as at 31/12/2010</b>	<b><u>348,419</u></b>	<b><u>115,800</u></b>	<b><u>94,237</u></b>	<b><u>175,025</u></b>	<b><u>77,083</u></b>	<b><u>810,564</u></b>
<b><u>Accumulated depreciation</u></b>						
<b>Balance as at 1/1/2010</b>	<b>62,548</b>	<b>91,871</b>	<b>56,258</b>	<b>117,250</b>	<b>37,326</b>	<b>365,253</b>
Additions	6,665	11,091	5,534	14,554	11,531	49,375
Disposals	-----	<u>(13,889)</u>	<u>(6,029)</u>	<u>(5,703)</u>	-----	<u>(25,621)</u>
<b>Balance as at 31/12/2010</b>	<b><u>69,213</u></b>	<b><u>89,073</u></b>	<b><u>55,763</u></b>	<b><u>126,101</u></b>	<b><u>48,857</u></b>	<b><u>389,007</u></b>
<b><u>Net book value as at</u></b>						
<b>31/12/2010</b>	<b><u>279,206</u></b>	<b><u>26,727</u></b>	<b><u>38,474</u></b>	<b><u>48,924</u></b>	<b><u>28,226</u></b>	<b><u>421,557</u></b>
<b>31/12/2009</b>	<b><u>257,298</u></b>	<b><u>28,486</u></b>	<b><u>19,873</u></b>	<b><u>39,566</u></b>	<b><u>39,757</u></b>	<b><u>384,980</u></b>

B. From the plant & equipment amount USD 165,966 plant & equipment fully depreciated & still used in the company's operations.

7. **Loans:**

A. This item consists of the following:

B.

<b><u>Transferring unit</u></b>	<b><u>Balance beginning as at 1/1/2010</u></b>	<b><u>Additions during the year</u></b>	<b><u>Prepayments</u></b>	<b><u>Balance as at 31/12/2010</u></b>	<b><u>Short term loans</u></b>	<b><u>Long term loans</u></b>	<b><u>Interest rate</u></b>
Triple jump	636,469	594,021	(41,176)	1,189,314	73,318	1,115,996	7.5%
KIVA	133,086	659,825	(280,323)	512,588	-----	512,588	0%
UNDP	1,843,216	-----	(170,784)	1,672,432	811,768	860,664	2%
Bank of Palestine	-----	1,090,881	(109,088)	981,793	436,353	545,440	6.5%
WAFAA	-----	9,900	-----	9,900	-----	9,900	0%
Cairo Amman Bank	-----	200,000	-----	200,000	-----	200,000	6%
<b>Total</b>	<b><u>2,612,771</u></b>	<b><u>2,554,627</u></b>	<b><u>(601,371)</u></b>	<b><u>4,566,027</u></b>	<b><u>1,321,439</u></b>	<b><u>3,244,588</u></b>	

C. These loans represents loans granted for the company from international corporations & local banks for lending microfinance in Palestine .

**8. Other current liabilities:**

This item consists of:

	<u>2010</u>	<u>2009</u>
Customers' savings liability	-----	10,268
Accrued expenses	1,818	4,240
Others	<u>100,034</u>	<u>25,578</u>
<b>Total</b>	<b><u>101,852</u></b>	<b><u>40,086</u></b>

**9. Employees Provisions:**

This item consists of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Provident fund	608,866	201,709	(181,914)	628,661
End of service benefit	<u>293,832</u>	<u>97,899</u>	<u>(58,048)</u>	<u>333,683</u>
<b>Total</b>	<b><u>902,698</u></b>	<b><u>299,608</u></b>	<b><u>(239,962)</u></b>	<b><u>962,344</u></b>

**10. Grants and donations**

This item consists of:

	<u>2010</u>		<u>2009</u>
	<u>UNDP/ Deep Project</u>	<u>Total</u>	<u>Total</u>
Donations recorded directly in the financial position	35,453	35,453	49,600
Donations recoded in the income statement	-----	-----	<u>184,473</u>
<b>Total</b>	<b><u>35,453</u></b>	<b><u>35,453</u></b>	<b><u>234,073</u></b>
<b>Total accumulated donation beginning of the year</b>	-----	<b><u>15,179,533</u></b>	<b><u>14,945,460</u></b>
<b>Total Accumulated donations ending of the year</b>	-----	<b><u>15,214,986</u></b>	<b><u>15,179,533</u></b>

**11. Other revenues**

This item consists of:

	<u>2010</u>	<u>2009</u>
Revenues from closing credit portfolio balances	-----	106,407
Revenues form sale of plant & equipment	851	138
Gifts & benefits	15,000	-----
Other	<u>4,568</u>	-----
<b>Total</b>	<b><u>20,419</u></b>	<b><u>106,545</u></b>

**12. Operating and administrative expenses:**

a- This item consists of:

	<u>2010</u>	<u>2009</u>
Salaries and related benefits	888,890	725,790
Employees benefits	111,504	63,019
Professional fees	16,701	11,935
Training & development programs	50,969	46,515
Communication & internet subscription	43,419	36,836
Transportation and auto operations	34,240	31,900
Equipment rental and maintenance	66,629	35,173
Other	66,821	70,167
Bank charges - b	340,208	268,870
Currency differences	10	2,238
Closing loans early	26,924	-----
Interest expense on commercial loans	<u>153,699</u>	<u>20,961</u>
<b>Total</b>	<b><u>1,800,014</u></b>	<b><u>1,313,404</u></b>

b- Bank charges are charges paid to the bank for restricting the borrower's salary and it is charged to the borrowers as application fees.

**13. Fair value of financial instruments:**

- Financial instruments comprise of financial assets and financial liabilities.
- Financial assets consist of cash and cash at banks and loans receivable.
- Financial liabilities consists of payables and accruals.
- The fair value of financial instruments is not materially different from their carrying values.

**14. Risk management interest rate:**

**a. Interest rate risk:**

The company faces interest risk on the short-term deposits.

**b. Liquidity risk:**

Liquidity risk is the risk from the inability of providing the necessary funds to meet the financial obligations on the maturity date and its operation costs.

**c. Foreign currency risk:**

Most of the assets and liabilities balances, revenues, grants contributions and expenses are in U.S Dollar.

**d. Credit risk:**

The company management minimizes the financing risks through obtaining sufficient collaterals and guarantee e.g. Deferred checks, personal guarantees, cars converted, promissory notes transferred salaries, gold,.

**e. Concentration of risk in geographical area:**

The company is carrying out all of its activities in Palestine. The political and economical destabilization in the area increases the risk of carrying out these activities and adversely affects the performance.

f. **Liquidity risks analysis:**

This item consists of:

<b><u>Exhibit</u></b>	<b><u>Three months</u></b>	<b><u>Six months</u></b>	<b><u>From 6 months up to one year</u></b>	<b><u>More than one year</u></b>	<b><u>Without maturity</u></b>	<b><u>Total</u></b>
Cash in hand	3,068	-----	-----	-----	-----	3,068
Balances at banks	-----	-----	-----	-----	1,585,729	1,585,729
Loans & murabaha, net	-----	6,892,368	6,822,372	5,689,498	-----	19,404,238
Property, plant & equipment, net	-----	-----	-----	-----	421,557	421,557
Other assets	8,896	123,990	187,094	249,737	-----	569,717
<b>Total assets</b>	<b><u>11,964</u></b>	<b><u>7,016,358</u></b>	<b><u>7,009,466</u></b>	<b><u>5,939,235</u></b>	<b><u>2,007,286</u></b>	<b><u>21,984,309</u></b>
Short & long term loans	-----	712,909	603,531	3,249,587	-----	4,566,027
Other liabilities	-----	675,639	754,369	381,279	836,398	2,647,685
<b>Total liabilities</b>	<b><u>-----</u></b>	<b><u>1,388,548</u></b>	<b><u>1,357,900</u></b>	<b><u>3,630,866</u></b>	<b><u>836,398</u></b>	<b><u>7,213,712</u></b>
<b>owners equity</b>	<b><u>-----</u></b>	<b><u>-----</u></b>	<b><u>-----</u></b>	<b><u>-----</u></b>	<b><u>14,770,597</u></b>	<b><u>14,770,597</u></b>
<b>Total liabilities &amp; owners equity</b>	<b><u>-----</u></b>	<b><u>1,388,548</u></b>	<b><u>1,357,900</u></b>	<b><u>3,630,866</u></b>	<b><u>15,606,995</u></b>	<b><u>21,984,309</u></b>
<b>GAP</b>	<b><u>11,964</u></b>	<b><u>5,627,810</u></b>	<b><u>5,651,566</u></b>	<b><u>2,308,369</u></b>	<b><u>(13,599,709)</u></b>	<b><u>-----</u></b>
<b>Accumulated gap</b>	<b><u>11,964</u></b>	<b><u>5,639,774</u></b>	<b><u>11,291,340</u></b>	<b><u>13,599,709</u></b>	<b><u>-----</u></b>	<b><u>-----</u></b>

g. **Portfolio –at-Risk (PAR):**

This item consists of:

<b><u>Exhibit</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
PAR> 30 days late	1.34%	1.71%
Recovery Ratio	98.16%	98.44%
Portfolio in Arrears> 30 days late	0.27%	0.35%
Loans at risk ratio	1.97%	1.76%
Loan loss ratio	0.05%	0.33%
<b><u>Productivity and Efficiency:</u></b>		
Portfolio Yield	16.81%	15.70%
Operating Expense Ratio	8.09%	12.50%
Active clients/ Credit officer	282%	219%
Active clients / Staff	151%	113%
Portfolio / Credit Officer \$	541,276	536,546
Average active Loan Amount \$	1,918	2,450
Cost per loan made \$	225	267
<b><u>Profitability</u></b>		
Return on Assets	7.59%	0.68%
Return on Equity	11.31%	0.89%
Operational self sufficiency ratio	189%	125%

15. **General**

Certain comparative figures have been reclassified to comply with this year financial statements presentation.