Palestine for Credit and Development (FATEN)

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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Independent Auditor's Report

To the Shareholders of Palestine for Credit and Development (FATEN)

Opinion

We have audited the financial statements of Palestine for Credit and Development (FATEN), which comprise the statement of financial position as at December 31, 2017, and the statement of income and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of FATEN as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the basis of accounting described in note (2).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of FATEN in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code), and we have fulfilled our ethical responsibilities in accordance with IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter- Tax provision

As shown in note (15) to the accompanying financial statements, FATEN has not reached a final settlement with the tax departments on the results of its operations from inception in 1999 up to now. During 2017, FATEN received a claim request from the income tax department to pay income tax equivalent to U.S. $ 5.2 million on its results of operations for the period from inception in 1999 up to 2015. According to the opinion of both the tax and legal advisers of FATEN, FATEN will not have any obligation to the tax departments for the years before 2017 because it is a non-profit company. Our opinion is not modified in respect of this matter.

Emphasis of Matter- Basis of preparation and restriction on use

We draw attention to note (2) to the financial statements, which describes the basis of accounting used. The financial statements are prepared to provide information to FATEN, income tax departments and Palestinian Monetary Authority (PMA). As a result, the financial statements may not be suitable for another purpose. Our auditor's report is intended solely for the information and use of FATEN, incometax departments and PMA, and should not be used by any other parties. Our opinion is not modified in respect of this matter.

Other Matters

The financial statements of FATEN for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements dated August 2, 2017.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note (2), this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing FATEN's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young – Middle East
License # 206/2012

Sa'ed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

September 20, 2018
Ramallah-Palestine

STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

	Note	2017 U.S. $	2016 U.S. $
Assets			
Cash and cash equivalents	3	3,788,475	11,490,561
Deposit at Palestine Monetary Authority	4	20,000	20,000
Loans and financing	5	112,612,867	111,062,594
Property and equipment	6	1,782,940	1,453,214
Projects in progress	7	2,442,623	1,371,669
Other assets	8	1,107,772	924,757
Total Assets		121,754,677	126,322,795
Equity and Liabilities			
Equity			
Paid-in capital	9	28,000	28,000
Statutory reserve	10	7,000	7,000
Voluntary reserve	10	7,305,000	7,305,000
Risk reserve	10	1,173,908	1,146,737
Retained earnings		30,621,450	29,370,065
Total Equity		39,135,358	37,856,802
Liabilities			
Deferred revenues	11	249,111	618,675
Loans payable	12	75,537,750	83,764,285
Provision for employees' benefits	13	3,222,998	2,335,252
Takaful Borrowers Fund	14	1,538,714	1,159,000
Tax provisions	15	1,210,886	-
Other liabilities	16	859,860	588,781
Total Liabilities		82,619,319	88,465,993
Total Equity and Liabilities		121,754,677	126,322,795

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the year ended December 31, 2017

	Note	2017 U.S. $	2016 U.S. $
<u>Revenues</u>			
Interest and revenues income	17	15,998,019	12,709,172
Interest and commissions fees		(3,779,994)	(2,443,252)
Net interest income		12,218,025	10,265,920
Net commissions	18	224,412	701,969
Net interest and commissions income		12,442,437	10,967,889
Foreign currency gains		297,604	50,157
Donation revenues	19	442,405	16,000
Other revenues, net	20	581,869	344,103
Total revenues		13,764,315	11,378,149
<u>Expenses</u>			
General and administrative expenses	21	6,667,554	4,915,253
End of service provision	13	368,460	280,587
Provision for doubtful loans and financing, net	5	3,886,671	456,752
Depreciation of property and equipment	6	250,492	202,347
Total expenses		11,173,177	5,854,939
Profit for the year before tax		2,591,138	5,523,210
Tax expense	15	(1,312,582)	-
Profit for the year		1,278,556	5,523,210
Other comprehensive income items		-	-
Total comprehensive income for the year		1,278,556	5,523,210

STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2017

	Paid-in capital	Statutory reserve	Voluntary reserve	Risk reserve	Retained earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2017						
Balance as at January 1, 2017	28,000	7,000	7,305,000	1,146,737	29,370,065	37,856,802
Total comprehensive income for the year	-	-	-	-	1,278,556	1,278,556
Transfers to reserves	-	-	-	27,171	(27,171)	-
Balance as at December 31, 2017	28,000	7,000	7,305,000	1,173,908	30,621,450	39,135,358

	Paid-in capital	Statutory reserve	Voluntary reserve	Risk reserve	Retained earnings	Net Equity
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2016						
Balance as at January 1, 2016	28,000	7,000	5,605,000	810,072	25,883,520	32,333,592
Total comprehensive income for the year	-	-	-	-	5,523,210	5,523,210
Transfers to reserves	-	-	1,700,000	336,665	(2,036,665)	-
Balance as at December 31, 2016	28,000	7,000	7,305,000	1,146,737	29,370,065	37,856,802

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	Note	2017 U.S. $	2016 U.S. $
Operating activities			
Profit for the year before tax		2,591,138	5,523,210
Adjustments:			
Provision for doubtful loans and financing, net		3,886,671	456,752
Depreciation of property and equipment		250,492	202,347
Losses (gains) from sale of property and equipment		5,227	(11,761)
Provision for employees' benefits		722,311	550,835
Interest and commission fees		3,779,994	2,443,252
Other non-cash items		18,795	(2,510)
		11,254,628	9,162,125
Changes in assets and liabilities:			
Loans and financing		(5,455,739)	(31,991,634)
Other assets		(183,015)	(346,927)
Deferred revenues		(369,564)	(1,776,619)
Other liabilities		207,695	496,889
Takaful Borrowers Fund		379,714	334,000
Employees' benefits additions		521,782	366,190
Employees' benefits paid		(356,347)	(1,220,555)
Taxes paid		(101,696)	-
Net cash from (used in) operating activities		5,897,458	(24,976,531)
Investing activities			
Purchase of property and equipment		(599,955)	(463,430)
Sale of property and equipment		14,510	42,407
Projects in progress		(1,070,954)	(25,109)
Net cash used in investing activities		(1,656,399)	(446,132)
Financing activities			
Loans' withdrawals		15,363,488	52,850,673
Settlement of loans		(23,590,023)	(16,285,881)
Interest and commissions fees paid		(3,716,610)	(2,300,975)
Overdraft		-	(1,483,900)
Net cash (used in) from financing activities		(11,943,145)	32,779,917
(Decrease) increase in cash and cash equivalents		(7,702,086)	7,357,254
Cash and cash equivalents, beginning of year		11,490,561	4,133,307
Cash and cash equivalents, end of year	3	3,788,475	11,490,561

1. The Company and its activities

Palestine for Credit and Development (FATEN) is a non-profit private shareholding company incorporated in Gaza-Palestine on July 14, 1998 and registered at the Palestinian Ministry of Economics under registration number (563124478). It is a specialized microfinance institution regulated by Palestine Monitory Authority (PMA) and licensed under its umbrella since May 2014.

FATEN started its career by focusing on women and issuing group loans. As it seeks to improve the level of its financial services in Palestine, FATEN started to provide loans to micro, small and medium projects, and now expanded its services to meet all the financial needs of the different economic sectors, therefore creating new job opportunities and reducing poverty rates and unemployment.

Currently, FATEN is the largest Palestinian microfinance institution with 37 branches and offices (West Bank 27, Gaza 10). FATEN's paid in capital is U.S. $ 28,000 as of December 31, 2017. The number of FATEN employees as at December 31, 2017 and 2016 was (293) and (282) employees, respectively. FATEN is keen to keep up with the information and technology developments in the field of finance and contributes to the process of construction and development in accordance with the international policies and practices to meet the requirements of good governance, accuracy and transparency.

Outstanding loans and financing balance as at December 31, 2017 and 2016 amounted to U.S. $ 112,612,867 and U.S. $ 111,062,594, respectively. The number of active borrowers as at December 31, 2017 and 2016 was 42,092 and 39,362, respectively.

The financial statements of FATEN as at December 31, 2017 were authorized for issuance by FATEN board of directors on September 8, 2018.

2. Accounting policies

2.1 Basis of preparation

The financial statements of FATEN have been prepared on a historical cost basis and in accordance with the prevailing laws in Palestine and in conformity with the Palestine Monetary Authority (PMA) regulations.

The financial statements have been presented in U.S. Dollar, which is the functional currency of FATEN.

2.2 Changes in accounting policies

The accounting polices used in the preparation of the financial statements are consistent with those used in the preparation of the previous financial year.

2.3 Summary of significant accounting policies

Interest and commissions income

Interest income on commercial loans and financing is recognized using the effective interest rate method except for interest and commission income on non-performing loans, which is recorded as suspended interest and commission, and not accounted for as revenues.

Alternatively, revenues on Islamic financing is recognized using straight-line method except for interest and commission income on non-performing facilities, which is recorded as suspended interest and commission, and not accounted for as revenues. Commissions are recorded as revenues when the related services are rendered.

Donation revenues

Conditional contribution is a pledge to give, which depends on the occurrence of a specified future and uncertain event to bind a donor, and shall be recognized when the conditions on which they depend are substantially met.

Unconditional pledges are those pledges where donors do not specify prerequisites that have to be carried out by the recipient before obtaining the contribution.

Donations revenues from unconditional pledges are recognized as follows:

- Revenues from restricted contributions where donors impose restrictions for a specific purpose and/or time are initially recognized as liabilities under "Deferred revenues", and are recognized as revenues in line with the expenditures incurred for the purpose restricted by the donor.

- Unconditional pledges that are temporarily restricted by donors for a specific purpose or time are recognized as revenue when such a purpose or time is satisfied.

Expense recognition

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

Interest and commissions fees

Interest and commissions fees are expensed as incurred. It consists of interest and other costs that FATEN incurs in connection with the borrowing of funds.

Loans and financing

Loans and financing are carried at cost net of provision for doubtful loans and financing.
Provision for doubtful loans and financing is recorded when collection of amounts due to FATEN is not possible and when there is objective evidence that one or more events occurred after the initial recognition of the loans that has a negative impact on the estimated future cash flows of the loans and financing and can be reliably estimated. Impairment allowance is recognized in the statement of income and comprehensive income.

Provisions are made for non-performing loans and financing granted to customers in accordance with the instructions of the Palestinian Monetary Authority (PMA).

Interest and commission on non-performing loans and financing granted to customers are suspended in accordance with the instructions of the Palestinian Monetary Authority.

Loans and financing and related doubtful provision are written off when collection procedures become ineffective according to PMA regulation. The excess in the provision for impairment losses, if any, is transferred to the statement of income and comprehensive income. Collections of previously written off are recognized as revenues.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of income and comprehensive income as incurred.

Depreciation is calculated on a straight-line basis. The estimated useful lives of the assets as shown in the table follow:

	Useful lives (Years)
Buildings	50
Office furniture	7
Tools and equipment	3-6
Computer software	3
Vehicles	7

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income and comprehensive income when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year and adjusted prospectively, if appropriate.

Projects in progress

Projects in progress comprise of costs incurred by FATEN to construct various projects. After completion, projects in progress are transferred to property and equipment.

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand and banks balances less deposits maturing after 3 months and restricted cash balances, if any.

Loans payable

Loans payable are recognized at amortized cost using the straight line method. Gains and losses are recognized in the statement of income and comprehensive income when the long-term loans are derecognized by the lender.

Takaful Borrowers Fund

Takaful Borrower Fund (the Fund) is replenished by the contributions of the borrowers according to the prescribed rules of procedure of the Fund and is intended to cover loan balances in case of death or disasters as specified in the Fund's internal bylaws.

End of service provision

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine and FATEN's human resources policies, on the basis of one-month salary for each year of employment. It is expected that the Palestinian Social Security Law (the law) will be applied during 2018 which requires the employer to settle the provision for employees' indemnity for periods prior to the effective date of the Law.

Provisions

Provisions are recognized when FATEN has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and reliably measurable.

Income tax

FATEN provides for income tax in accordance with Palestinian Income tax law.

Income tax expense represents the accrued income tax which is calculated based in the FATEN's taxable income. Taxable income may differ from accounting income as the later includes non-taxable revenues or non-deductible expenses, such income/expense might be taxable/deductible in the following years.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability.
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by FATEN.

A fair value measurement of a non-financial asset takes into account the market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to other market participants that would use the asset in its highest and best use.

FATEN uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value by maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There have been no transfers among the levels mentioned above during 2017 and 2016.

For the purpose of fair value disclosures, FATEN has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of financial assets

An assessment is made at the end of each financial year to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income and comprehensive income. The Impairment in the carrying value is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income and comprehensive income.
- For assets carried at cost, impairment is the difference between carrying value and present value of the future cash flows discounted at the current market rate using the return of similar financial asset.
- For assets carried at amortized cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the original effective interest rate.

Deferred revenues

Deferred revenues are interest and commission revenues on commercial loans that are received but not earned at the date of the financial statements.

Contributions receivable

Contributions receivable are stated at the original amount of the unconditional pledge less amounts received and any uncollectible pledges. An estimate for the uncollectible amount is made when the collection of full unconditional pledge is no longer probable.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Use of estimates

The preparation of financial statements requires FATEN's management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty. Therefore, actual results may differ resulting in future changes in such provisions.

Management believes that estimates are reasonable and are as follows:

- Provision on doubtful loans and financing: FATEN reviews its impairment allowance for loans and financing according to PMA regulations and accounting principles.
- Tax provisions: provisions are calculated based on prevailing tax laws and regulations.
- The useful lives of tangible and intangible assets: management reviews, on a regular basis, the useful lives in order to assess the depreciation for the year based on the asset's condition, useful life and future economic benefits. Any impairment loss is recognized in the statement of income and comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position, if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Foreign currencies

FATEN maintains its books in U.S Dollar (U.S. $). Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are recognized in the statement of income and comprehensive income.

3. Cash and cash equivalents

This item represents the following:

	2017	2016
	U.S. $	U.S. $
Cash on hand	1,467,506	762,514
Current accounts at banks	1,784,364	10,191,442
Deposits maturing after 3 months	536,605	536,605
	3,788,475	11,490,561

The average annual interest rate on deposits in U.S. $ was 2% during the year.

For the purpose of the statement of cash flows, cash and cash equivalents consist of the following:

	2017	2016
	U.S. $	U.S. $
Cash on hand	1,467,506	762,514
Current accounts at banks	1,784,364	10,191,442
Deposits maturing after 3 months	536,605	536,605
Cash and balances at banks	3,788,475	11,490,561
Deduct: deposits maturing after 3 months	(536,605)	(536,605)
	3,251,870	10,953,956

4. Deposit at Palestine Monetary Authority

According to PMA circular (3/2016), FATEN is required to maintain a deposit in an amount of U.S. $ 20,000 at PMA with an annual interest rate of 0.16%.

5. Loans and financing

This item represents the following:

	2017	2016
	U.S. $	U.S. $
Commercial loans	96,469,989	90,662,192
Islamic financing	20,696,029	21,693,789
	117,166,018	112,355,981
Provision for doubtful loans and financing	(4,553,151)	(1,293,387)
	112,612,867	111,062,594

- The total outstanding performing loans and financing, according to PMA instructions as of December 31, 2017 and 2016 amounted to U.S. $ 109,222,866 and U.S. $ 110,136,167, which represent 93.2% and 98% of the loans and financing portfolio balance, respectively.
- The total outstanding non-performing loans and financing according to PMA instructions as of December 31, 2017 and 2016 amounted to U.S. $ 7,943,152 and U.S. $ 2,219,814, which represent 6.8% and 2% of loans and financing portfolio balance, respectively.
- The fair value of gold received as collaterals against loans and financing, amounted to U.S. $ 807,698 as at December 31, 2017 and U.S. $ 1,079,198 as at December 31, 2016.
- The total outstanding short-term loans and financing with a maturity date less than one year as at December 31, 2017 and 2016 amounted to U.S. $ 49,996,365 and U.S. $ 46,851,766, respectively.
- The total outstanding long-term loans and financing as at December 31, 2017 and 2016 amounted to U.S. $ 62,616,502 and U.S. $ 64,210,828, respectively.
- The total outstanding non-performing loans and financing that were transferred to legal court as of December 31, 2017 and 2016 amounted to U.S. $ 1,441,525 and U.S. $ 554,312, respectively.
- The total outstanding loans and financing restructured or refinanced as at December 31, 2017 and 2016 amounted to U.S. $ 3,004,570 and U.S. $ 1,221,300, respectively.
- The value of secured loans and financing by loans guarantee funds as at December 31, 2017 and 2016 amounted to U.S. $ 2,076,774 and U.S. $ 361,864, respectively.

Following is the movement on the provision for doubtful loans and financing:

	2017	2016
	U.S. $	U.S. $
Balance, beginning of year	1,293,387	1,055,481
Additions during the year, net	3,886,671	456,752
Written-off against impaired loans and financing	(645,702)	(216,336)
Currency differences	18,795	(2,510)
Balance, end of year	4,553,151	1,293,387

Suspended interest on non-performing loans and financing as at December 31, 2017 and 2016 amounted to U.S. $ 561,500 and U.S. $ 361,060, respectively.

Following is the movement on the suspended interest during the year:

	2017	2016
	U.S. $	U.S. $
Balance, beginning of year	361,060	343,490
Interests and commissions suspended during the year	3,602,920	2,303,968
Interests suspended transferred to revenues	(3,242,493)	(2,233,775)
Written-off interests and commissions	(159,987)	(52,623)
Balance, end of year	561,500	361,060

Following is the distribution of loans and financing by geographic area:

	West Bank	Gaza	Total
	U.S. $	U.S. $	U.S. $
2017			
Loans and financing	77,778,760	39,387,258	117,166,018
Provision for doubtful loans and financing	(2,258,079)	(2,295,072)	(4,553,151)
	75,520,681	37,092,186	112,612,867

	West Bank	Gaza	Total
	U.S. $	U.S. $	U.S. $
2016			
Loans and financing	75,303,642	37,052,339	112,355,981
Provision for doubtful loans and financing	(1,128,740)	(164,647)	(1,293,387)
	74,174,902	36,887,692	111,062,594

Following is the distribution of loans and financing by economic sector:

	2017	2016
	U.S. $	U.S. $
Commercial sector	31,500,640	27,068,807
Industrial and mineral sector	6,789,978	5,354,453
Agricultural and livestock sector	9,999,249	10,444,778
General services sector	9,584,408	10,133,123
Habitation improvement sector	32,077,178	33,213,726
Consumption sector	17,193,190	17,626,069
Tourism sector	10,021,375	8,515,025
	117,166,018	112,355,981

Following is the distribution of loans and financing by product:

	2017	2016
	U.S. $	U.S. $
Habitation improvement	34,670,164	32,776,083
Social loans	1,795,242	1,283,984
Projects	62,089,424	58,256,348
Personal	18,611,188	20,039,566
	117,166,018	112,355,981

6. Property and equipment

	Buildings	Office furniture	Tools and equipment	Computer software	Vehicles	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:						
Balance, beginning of year	348,418	565,173	702,831	343,547	311,593	2,271,562
Additions	12,915	55,993	217,615	276,069	37,363	599,955
Disposals	-	-	(3,701)	-	(27,198)	(30,899)
Balance, end of year	361,333	621,166	916,745	619,616	321,758	2,840,618
Accumulated depreciation:						
Balance, beginning of year	111,062	148,706	286,087	210,840	61,653	818,348
Depreciation for the year	6,968	56,348	91,471	51,739	43,966	250,492
Disposals	-	-	(3,100)	-	(8,062)	(11,162)
Balance, end of year	118,030	205,054	374,458	262,579	97,557	1,057,678
Net book value						
Balance as at December 31, 2017	243,303	416,112	542,287	357,037	224,201	1,782,940
Balance as at December 31, 2016	237,356	416,467	416,744	132,707	249,940	1,453,214

7. Projects in progress

	2017	2016
	U.S. $	U.S. $
New headquarter	1,832,311	1,371,669
New accounting system	610,312	-
	2,442,623	1,371,669

Upon completion, each project is transferred to property and equipment and intangible assets. The movement on projects in progress during the years 2017 and 2016, is summarized as follows:

	2017	2016
	U.S. $	U.S. $
Balance, beginning of year	1,371,669	1,346,560
Additions	1,070,954	25,109
Balance, end of year	2,442,623	1,371,669

The estimated costs to complete projects in progress as at December 31, 2017 amounted to U.S. $ 2,253,937.

8. Other assets

	2017	2016
	U.S. $	U.S. $
Accrued interest on loans*	727,089	777,512
Prepaid expenses	366,136	127,241
Contributions receivable (note 22)	3,875	-
Due from employees	2,181	6,857
Other debit balances	8,491	13,147
	1,107,772	924,757

* This item is present in net after deducting suspended interests in the amount of U.S. $ 561,500 and U.S. $ 361,060 as at December 31, 2017 and 2016, respectively (note 5).

9. Paid-in capital

FATEN's authorized and issued share capital amounted to U.S. $ 28,000 with a par value of U.S $ 1 per share.

During the year, ownership ratios were adjusted. The Board of Directors' share of the capital amounted to U.S. $ 7,844 and the Executive Management share amounted to U.S. $ 1,628. The following table details significant shareholders in FATEN:

	Capital
	U.S. $
	2017
Ann Lin Foster	2,600
Anwar Hussien	1,480
Sadiq As'ad	1,480
Ibrahim Tarsha	1,480
Mohammad Ala'ghbar	1,480
Na'el Saleem	1,480
Issa Albasha	1,480
Sahar Abu Ramadan	1,424

10. Reserves

Statutory reserve
Statutory reserve represents accumulation of profits transferred at 10% of annual net profit in accordance with the Companies' Law. This reserve is not available for distribution to shareholders or transfer. FATEN ceased to transfer any portion of profits as the statutory reserve balance reached 25% of share capital.

Voluntary reserve
The amounts accumulated in this account represent what was deducted in previous years as voluntary reserve. No additions have been made to the voluntary reserve account during 2017. Based on the Board of Directors decision in 2016, U.S. $ 1,700,000 was transaferred to the voluntary reserve account. The balance of the voluntary reserve as at December 31, 2017 amounted to U.S. $ 7,305,000.

Risk reserve
This reserve is appropriated in accordance with PMA instruction (2/2014) based on 1% of performing loans and financing against the general risks surrounding the loans and financing. The reserve is not to be utilized or reduced without PMA prior approval.

11. Deferred revenues

This item represents unearned interest revenues on loans and financing, the outstanding balance of unearned interest revenues amounted to U.S. $ 249,111 and 618,675 as of December 31, 2017 and 2016, respectively.

12. Loans payable

	2017	2016
	U.S. $	U.S. $
Arab Fund for Economic and Social Development	16,380,000	17,460,000
Triple Jump	10,333,333	5,000,000
ResponsAbility SICAV	9,227,267	14,530,303
Al Quds Bank	8,496,033	6,816,965
Bank of Palestine	6,361,962	9,100,980
Cyrano	5,000,000	5,000,000
Sanad Fund for MSME	3,885,000	7,220,000
KIVA	3,540,687	2,750,704
United Nations Development Programme	2,971,179	3,730,063
The Palestinian Fund for Employment and Social Protection	2,411,365	3,200,000
International Finance Corporation (IFC)	2,142,857	-
The Housing Bank for Trade and Finance	2,093,885	3,124,711
Palestine Investment Fund	1,568,070	2,556,931
Cairo Amman Bank	512,821	981,250
Grameen Igricole	500,000	1,700,000
Small Enterprises Center	100,000	-
Incofin	-	571,429
SPARK	13,291	20,949
	75,537,750	83,764,285
Current portion of long-term loans	(29,109,946)	(24,706,404)
	46,427,804	59,057,881

The maturities of loans are as follows:

	U.S. $
2018	29,109,946
2019	21,905,597
2020	8,012,313
2021	3,517,791
Thereafter	12,992,103
	75,537,750

Following is the movement on loans as at December 31, 2017 and 2016:

	2017	2016
	U.S. $	U.S. $
Balance, beginning of year	83,764,285	47,199,493
Additions	15,363,488	52,850,673
Payments	(23,590,023)	(16,285,881)
Balance, end of year	75,537,750	83,764,285

Arab Fund for Economic and Social Development

The Arab Fund for Economic and Social Development loans represent two long-term loans agreements with total amount of U.S. $ 18,000,000, at a discounted annual interest rate of 3%. The loans are to be settled through semi-annual installments maturing within six years. The outstanding balance as at December 31, 2017 and December 31, 2016 amounted to U.S. $ 16,380,000 and U.S. $ 17,460,000, respectively.

Triple Jump

During 2017, FATEN signed a long-term loans agreement with Triple Jump in addition to the loans granted prior to 2017 with a total amount of U.S. $ 12,000,000, and at a decreasing interest rate ranging from 5.25% and 6.25%. The loans are to be settled through quarterly and semi-annual installments and mature within a period of five years. The outstanding balance as at December 31, 2017 amounted to U.S. $ 10,333,333 and as at December 31, 2016 amounted to U.S. $ 5,000,000. The outstanding loans balance includes a subordinated loan amounts to U.S. $ 5,000,000 as at December 31, 2017.

ResponsAbility SICAV

The ResponsAbility SICAV loans represent several long-term loan agreements with total amount of U.S. $ 15,000,000, and at a discounted interest rate of 5%, these loans are to be settled through quarterly installments over a period of three years. The outstanding balance as at December 31, 2017 and December 31, 2016 amounted to U.S. $ 9,227,267 and U.S. $ 14,530,303, respectively.

Al Quds Bank

Al Quds Bank loans represent several long-term loan agreements in Israeli shekels (ILS) with a total amount of ILS 20,000,000 and with an annual interest rate, equivalent to lending price in the central Bank of Israel (Prime), plus interest premium ranging from 3% to 3.4% at a minimum interest value of 5% and maximum of 8%. In additions to several long-term loans in U.S Dollars subject to annual interest rate, equivalent to LIBOR, plus interest ranging between 2% and 3% with at a minimum interest value of 3.5% and a maximum of 7%, these loans are to be settled through quarterly installments within a period of four years. The outstanding balance as at December 31, 2017 and December 31, 2016 amounted to U.S. $ 8,496,033 and U.S. $ 6,816,965, respectively. Furthermore, FATEN obtained an overdraft in ILS and U.S. $ amounts to ILS 3,000,000 and U.S. $ 1,000,000 with an interest rate on ILS equivalent to the lending price in the central Bank of Israel plus 3.4%, while the U.S. $ overdraft is subject to annual interest rate equivalent to LIBOR plus 3.9%. FATEN did not utilize these ceilings during the year.

Bank of Palestine

Bank of Palestine loans represent several long-term loan agreements with a total amount of U.S. $ 10,908,611. The loans are subject to annual interest rate equivalent to LIBOR plus a premium ranging between 3% and 4%, at a minimum interest value of 4% and maximum of 8%. The loans are to be settled through quarterly installments over a period of three years. The outstanding balance as at December 31, 2017 and 2016 amounted to U.S. $ 6,361,962 and U.S. $ 9,100,980, respectively.

Cyrano

Prior to 2017, FATEN signed a long-term loan agreement with Cyrano with an amount of U.S. $ 5,000,000, with a declining annual interest rate of 6%; the loan is to be settled through quarterly installments within two years. The outstanding balance amounted to U.S. $ 5,000,000 as at December 31, 2017 and 2016.

Sanad Fund for MSME

During 2016, FATEN signed a long-term loan agreement with Sanad Fund for MSME with an amount of U.S $ 5,000,000, the loan is subject to declining annual interest rate of 5.2%. The loan is to be settled through quarterly installments within two years. The outstanding balance as at December 31, 2017 and as at December 31, 2016 amounted to U.S. $ 3,885,000 and U.S. $ 7,220,000, respectively.

KIVA

KIVA provides small loans to individuals and groups in developing countries through its website, where it connects KIVA with local lending institutions. No interest is charged on KIVA loans. FATEN grants small loans that adhere to KIVA's criteria and remain outstanding as long as FATEN continues using KIVA's website. The outstanding balance as at December 31, 2017 and as at December 31, 2016 amounted to U.S. $ 3,540,687 and U.S. $ 2,750,704, respectively.

United Nations Development Programme – (UNDP)

UNDP loans represent -economic empowerment of families' project- several interest-free long-term loans in the amount of U.S. $ 6,590,500. The loans are repaid on a quarterly basis over a period of three years. The outstanding balance as at December 31, 2017 and as at December 31, 2016 amounted to U.S. $ 2,971,179 and U.S. $ 3,730,063, respectively.

The Palestinian Fund for Employment and Social Protection (PFESP)

PFESP loans represent a long-term loan amount of U.S. $ 3,150,000 and is subject to a discounted annual interest rate of 2% and a loan that is not subject to interest in the amount of U.S. $ 50,000. The loans are repaid on a quarterly basis within a period of three years. The outstanding balance as at December 31, 2017 and as at December 31, 2016 amounted to U.S. $ 2,411,365 and U.S. $ 3,200,000, respectively.

International Finance Corporation (IFC)

During the year, FATEN signed a long-term loan agreement with the IFC for an amount of U.S. $ 2,500,000 with an annual declining interest rate of 6.225%. The loan is repaid on a semi-annual basis within a period of three years. The outstanding balance as at December 31, 2017 amounted to U.S. $ 2,142,857.

The Housing Bank for Trade and Finance (HBTF)

During 2016, FATEN signed a loan agreement with HBTF with a ceiling amount of ILS 9,875,000. The loan is subject to annual interest rate equivalent to the lending price in the central Bank of Israel plus a premium of 2% at a minimum interest value of 5% and maximum of 10%. The loan is repaid on a quarterly basis over a period of three years. The outstanding balance as at December 31, 2017 and as at December 31, 2016 amounted to U.S. $ 2,093,885 and U.S. $ 3,124,711, respectively.

Palestine Investment Fund (PIF)
FATEN signed several long-term loan agreements with the Palestine Investment Fund amount of U.S. $ 4,500,000 at a declining interest rate ranging from 3.5% to 5%. The loans are repaid on a quarterly and semi-annual basis within a period of three years. The outstanding balance as at December 31, 2017 and 2016 amounted to U.S. $ 1,568,070 and U.S. $ 2,556,931, respectively.

Cairo Amman Bank (CAB)
During 2016, FATEN signed a long-term loan agreement with CAB for an amount of ILS 3,000,000. The loan is subject to annual interest rate equals to that of the Bank of Israel plus a premium of 2% at a minimum interest value of 5% and maximum of 10%. The loan is repaid on a quarterly basis over a period of two years. The outstanding balance as at December 31, 2017 and 2016 amounted to U.S. $ 512,821 and U.S. $ 981,250, respectively.

Grameen Igricole
During 2016, FATEN signed a long-term loan agreement with Grameen for an amount of U.S. $ 2,000,000. The loan is subject to an annual declining interest rate of 5.5%. The loan is repaid on semi-annual basis within a period of one year. The outstanding balance as at December 31, 2017 and 2016 amounted to U.S. $ 500,000 and U.S. $ 1,700,000, respectively.

Small Enterprises Center
During 2017, FATEN signed an interest-free long-term loan agreement with Small Enterprises Center. The loan is repaid on an annual basis ending in 2021. The outstanding balance as at December 31, 2017 amounted to U.S. $ 100,000.

SPARK
During 2013, FATEN signed an interest-free loan agreement with SPARK for an amount of U.S. $ 50,000. The outstanding balance as at December 31, 2017 and 2016 amounted to U.S. $ 13,291 and U.S. $ 20,949, respectively.

13. Provision for employees' benefits

Movement on provision for employees' benefits during the years 2017 and 2016 was as follows:

	Balance, beginning of year	Additions	Payments	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2017				
End of service provision	1,131,597	368,460	(30,103)	1,469,954
Provident fund	1,203,655	875,633	(326,244)	1,753,044
	2,335,252	1,244,093	(356,347)	3,222,998

	Balance, beginning of year	Additions	Payments	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2016				
End of service provision	882,390	280,587	(31,380)	1,131,597
Provident fund	1,756,392	636,438	(1,189,175)	1,203,655
	2,638,782	917,025	(1,220,555)	2,335,252

Provision for employee's end of service benefits is provided for in accordance with the labor law prevailing in Palestine and FATEN's human resources policies, on the basis of one-month salary for each year of employment. It is expected that the Palestinian Social Security Law (the law) will be applied during 2018 which requires the employer to settle the provision for employees' indemnity for periods prior to the effective date of the Law.

According to FATEN's employees' provident fund scheme, FATEN deducts 15% of each employee's monthly basic salary and matches it with an additional 15% as a contribution from FATEN.

14. Takaful Borrowers Fund

FATEN established Takaful Borrowers Fund (the Fund) with a capital of U.S. $ 100,000. The Fund is replenished by the contributions of the borrowers according to the prescribed rules and procedure of the Fund and is intended to cover loans balances in case of death or disasters as specified in the Fund's internal bylaws. Following is the movement of the Takaful Borrower Fund during the year:

	2017	2016
	U.S.$	U.S.$
Balance, beginning of year	1,159,000	825,000
Additions during the year	515,364	431,716
Payments during the year	(135,650)	(97,716)
Balance, end of year	1,538,714	1,159,000

15. Tax provisions

	2017	2016
	U.S.$	U.S.$
Balance, beginning of year	-	-
Provided for during	1,312,582	-
Payments during the year	(101,696)	-
Balance, end of year	1,210,886	-

FATEN has not reached a final settlement with the tax departments for the results of its operations from inception in 1999 up to 2017. During 2017, the income tax department issued an assessment based on prudence and awareness (04) on FATEN's results of operations for the period from inception in 1999 up to 2015, the total amount of income tax requested for these years amounted to ILS 18 million (the equivalent to U.S. $ 5.2 million). FATEN's management believes that it is not subject to income tax for being not-for-profit organization and as it has never received a claim request from the income tax department to pay income and this claim is arbitrary and baseless. FATEN based its tax provisioning in accordance with the decision of the Cabinet number (02/146/17/م.و/ر.ح) which was issued on April 3, 2017 which entails subjecting non-bank lending institutions to Value Added Tax on the salaries of their employees. The opinion of both the tax and legal advisor of FATEN regarding the composition of the tax provisions on the results of its operations, which ensure the sufficiency of these provisions as at December 31, 2017.

16. Other liabilities

	2017	2016
	U.S. $	U.S. $
Accrued interest expenses	454,071	390,687
Bonuses provision	170,342	-
Temporary restricted contributions*	121,545	-
Excess payments from borrowers	36,689	166,985
Accrued payroll taxes	36,470	1,362
Accrued expenses	27,639	28,502
Earnings prohibited by Shari'a	12,112	1,211
Others	992	34
	859,860	588,781

* This item represents unearned revenues from temporary restricted contributions that donors require usage over a specified time or goal, representing the difference between the total amount of contributions and the amount of expenditures disbursed from each contribution. Movement on temporary restricted contributions during the year is as follows:

	2017	2016
	U.S.$	U.S.$
Balance, beginning of year	-	-
Additions during the year	496,665	-
Temporary restricted contributions released from restriction (note 19)	(375,120)	-
Balance, end of year	121,545	-

17. Interest and revenues income

This item represents the following:

	2017	2016
	U.S. $	U.S. $
Interest on commercial loans	13,484,093	10,795,305
Islamic financing revenue	2,513,926	1,913,867
	15,998,019	12,709,172

18. Net Commissions

This item represents the accrued commissions from borrowers that is paid by FATEN to secure guarantees and facilitate the lending process:

	2017	2016
	U.S. $	U.S. $
Commissions revenues		
Commissions on granting loans and financing	218,346	350,264
Commissions on securing guarantees	719,680	1,299,147
	938,026	1,649,411
Commissions expense	(713,614)	(947,442)
	224,412	701,969

19. Donation revenues

	2017	2016
	U.S. $	U.S. $
Temporary restricted contributions released from restriction (note 16)	375,120	-
Unrestricted contributions	67,285	16,000
	442,405	16,000

20. Other revenues, net

	2017	2016
	U.S. $	U.S. $
Recoveries from previously written-off loans	231,760	75,152
Late payment penalty interest	108,691	98,711
Interest revenues on deposits	31,117	3,143
Rounding differences on borrowers' installments	140,039	98,640
(Losses) gains from sale of property and equipment	(5,227)	11,761
Other	75,489	56,696
	581,869	344,103

21. General and administrative expenses

	2017	2016
	U.S. $	U.S. $
Salaries and related benefits	3,678,839	2,744,984
Employees bonuses	679,079	567,093
Employees' provident fund	353,851	270,248
Maintenance	283,526	306,207
VAT on salaries	275,943	-
Advertising	231,499	150,039
Training expenses	200,582	69,718
Rent	190,705	178,410
Telecommunication	166,205	129,213
Travel and transportation	154,480	120,174
Professional fees	131,715	67,785
Utilities	115,576	87,213
Stationery and office supplies	53,120	55,120
Social responsibility*	45,981	50,662
Fees, licenses and subscriptions	42,136	52,789
Other	64,317	65,598
	6,667,554	4,915,253

* FATEN provides donations in social fields and other areas as part of FATEN's policy to build trust between the different blocks of the society. The percentage of social responsibility with respect to the net profit for the year was 3.6% for 2017 against 0.09% for 2016.

22. Conditional contributions

During 2017, FATEN signed a grant contribution agreement with Taawon Association in an amount of U.S. $ 983,580 to implement a project titled "Microfinance in Jerusalem" over a period of two years. The implementation of the project depends on several conditions among which is the granting of loans to the citizens of Jerusalem. Therefore, FATEN management believes that the contribution is conditional and no contribution receivable is recognized except for the excess of amounts granted to the borrowers over amounts received from Taawon. As of December 31, 2017, amounts received from Taawon were U.S. $ 196,665 and amounts granted to the borrowers were U.S. $ 200,540 (note 8).

23. Related party transactions

This item represents balances and transactions with related parties. Related parties represent major shareholders, board of directors and key management personnel of FATEN. FATEN's Board of Directors approves pricing policies and conditions relating to balances and transactions with related parties.

Balances with related parties included in the statement of financial position were as follows:

		2017	2016
	Nature of related party	U.S. $	U.S. $
Loans and financing	Shareholders	21,690	30,704
Loans and financing	Key management	144,833	167,669

Transactions with related parties included in the statement of income and comprehensive income during 2017 and 2016 were as follows:

		2017	2016
	Nature of related party	U.S. $	U.S. $
Travel and transportation	Board of Directors	1,665	7,487
Salaries	Key management	314,927	303,253
Provident fund and end of service benefits	Key management	60,451	58,947

24. Fair value of financial instruments

	Carrying value	Fair value
	U.S. $	U.S. $
Financial assets		
Cash and cash equivalents	3,788,475	3,788,475
Deposit at Palestine Monetary Authority	20,000	20,000
Loans and financing	112,612,867	112,612,867
Other financial assets	741,636	741,636
	117,162,978	117,162,978
Financial liabilities		
Deferred revenues	249,111	249,111
Loans payables	75,537,750	75,537,750
Other financial liabilities	738,315	738,315
	76,525,176	76,525,176

- The fair value of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- Fair values of cash and cash equivalent, Deposit at Palestine Monetary Authority, deferred revenues, other financial assets and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Interest bearing financial instruments are stated at amortized cost by discounting expected cash flows using interest rates prevailing in financial markets.

25. Maturity analysis of assets and liabilities

Following is the maturity date analysis of assets and liabilities as at December 31, 2017:

	Up to 1 Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 12 months	From 1 year to 5 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and cash equivalents	3,252,475	-	536,000	-	-	-	3,788,475
Deposit at Palestine Monetary Authority	-	-	-	-	-	20,000	20,000
Loans and financing	4,335,764	8,841,299	12,996,215	23,823,087	62,616,502	-	112,612,867
Property and equipment	-	-	-	-	-	1,782,940	1,782,940
Projects in progress	-	-	-	-	-	2,442,623	2,442,623
Other assets	210,394	531,242	122,045	244,091	-	-	1,107,772
Total Assets	7,798,633	9,372,541	13,654,260	24,067,178	62,616,502	4,245,563	121,754,677
Liabilities							
Deferred revenues	9,660	19,697	28,955	53,076	137,723	-	249,111
Loans payable	2,206,215	3,961,496	7,593,708	15,348,527	46,427,804	-	75,537,750
Provision for employees' benefits	-	-	-	-	-	3,222,998	3,222,998
Takaful Borrowers Fund	59,666	121,670	178,848	327,842	850,688	-	1,538,714
Tax provision	-	-	1,210,886	-	-	-	1,210,886
Other liabilities	345,964	85,697	80,417	96,745	251,037	-	859,860
Total Liabilities	2,621,505	4,188,560	9,092,814	15,826,190	47,667,252	3,222,998	82,619,319
Equity	-	-	-	-	-	39,135,358	39,135,358
Total liabilities and equity	2,621,505	4,188,560	9,092,814	15,826,190	47,667,252	42,358,356	121,754,677
Maturity gap	5,177,128	5,183,981	4,561,446	8,240,988	14,949,250	(38,112,793)	-
Cumulative gap	5,177,128	10,361,109	14,922,555	23,163,543	38,112,793	-	-

Following is the maturity date analysis of assets and liabilities as at December 31, 2016:

	Up to 1 Month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 12 months	From 1 year to 5 years	Without maturity	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Assets							
Cash and cash equivalents	10,954,561	-	536,000	-	-	-	11,490,561
Deposit at Palestine Monetary Authority	-	-	-	-	-	20,000	20,000
Loans and financing	3,904,314	7,808,628	11,712,941	23,425,883	64,210,828	-	111,062,594
Property and equipment	-	-	-	-	-	1,453,214	1,453,214
Projects in progress	-	-	-	-	-	1,371,669	1,371,669
Other assets	227,106	570,410	63,620	63,621	-	-	924,757
Total Assets	15,085,981	8,379,038	12,312,561	23,489,504	64,210,828	2,844,883	126,322,795
Liabilities							
Deferred revenues	21,749	43,498	65,247	130,494	357,687	-	618,675
Loans payable	1,209,914	3,625,971	8,150,621	11,719,897	59,057,882	-	83,764,285
Provision for employees' benefits	-	-	-	-	-	2,335,252	2,335,252
Takaful Borrowers Fund	40,744	81,487	122,231	244,462	670,076	-	1,159,000
Other liabilities	13,734	30,076	236,690	82,406	225,875	-	588,781
Total Liabilities	1,286,141	3,781,032	8,574,789	12,177,259	60,311,520	2,335,252	88,465,993
Equity	-	-	-	-	-	37,856,802	37,856,802
Total liabilities and equity	1,286,141	3,781,032	8,574,789	12,177,259	60,311,520	40,192,054	126,322,795
Maturity gap	13,799,840	4,598,006	3,737,772	11,312,245	3,899,308	(37,347,171)	-
Cumulative gap	13,799,840	18,397,846	22,135,618	33,447,863	37,347,171	-	-

26. Risk management

The main risks arising from FATEN's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. FATEN's Board of Directors reviews and approves policies for managing these risks that are summarized below:

I. Credit risks

Credit risks are those risks resulting from the default of counterparties to the financial instrument to repay their commitment to FATEN leading to financial losses. FATEN, through credit risk management, sets ceilings for direct loans and financing. FATEN also monitors credit risks and continuously evaluates the credit standing of customers.

1. Exposure to credit risk

	2017	2016
	U.S. $	U.S. $
Cash and cash equivalents	3,788,475	11,490,561
Deposits at Palestine Monetary Authority	20,000	20,000
Loans and financing	117,166,018	112,355,981
Other financial assets	741,636	797,516
	121,716,129	124,664,058

2. Exposure to credit risk based on geographic areas:

	Total	Gaza	West Bank
	U.S. $	U.S. $	U.S. $
Cash and cash equivalents	3,788,475	551,880	3,236,595
Deposits at Palestine Monetary Authority	20,000	-	20,000
Loans and financing	117,166,018	39,387,434	77,778,584
Other financial assets	741,636	-	741,636
	121,716,129	39,939,314	81,776,815

3. Concentration in credit exposure based on level of risk:

– Concentration in credit exposure based on economic sector:

	Commercial sector	Industrial and mineral sector	Agricultural and livestock sector	General services sector	Habitation improvement sector	Consumption sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Performing loans and financing	29,014,229	6,426,611	9,338,096	18,360,340	30,334,050	15,749,540	109,222,866
Non-performing loans and financing	2,486,411	363,367	661,153	1,245,443	1,743,128	1,443,650	7,943,152
Total as at December 31, 2017	31,500,640	6,789,978	9,999,249	19,605,783	32,077,178	17,193,190	117,166,018

	Commercial sector	Industrial and mineral sector	Agricultural and livestock sector	General services sector	Habitation improvement sector	Consumption sector	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Performing loans and financing	26,626,040	5,268,104	10,254,709	18,382,386	32,756,214	16,848,714	110,136,167
Non-performing loans and financing	442,767	86,349	190,069	265,762	457,512	777,355	2,219,814
Total as at December 31, 2016	27,068,807	5,354,453	10,444,778	18,648,148	33,213,726	17,626,069	112,355,981

– Concentration in credit exposure based on geographic areas as at December 31, 2017:

	West Bank	Gaza	Total
	U.S. $	U.S. $	U.S. $
Performing loans and financing	73,617,870	35,604,996	109,222,866
Non-performing loans and financing	4,160,714	3,782,438	7,943,152
	77,778,584	39,387,434	117,166,018

II. Interest rate risks

FATEN's exposure to the risk of changes in interest rates relates primarily to FATEN's Loans payable subject to variable interest rates.

The following table demonstrates the sensitivity of FATEN's statement of income and comprehensive income to a reasonably possible change in interest rates as of December 31, 2017, with all other variables held constant. The sensitivity of the statement of income and comprehensive income is the effect of the assumed changes in interest rates on a one-year profit and is charged to financial assets and liabilities bearing variable interest rates as at December 31, 2017.

The effect of expected decrease in interest rate is expected to be equal and opposite to the effect of the increase shown below:

	Change in interest rate	Effect on income before tax
2017	Basis point	U.S. $
US Dollar	10	15,740
2016		
US Dollar	10	17,620

III. Liquidity risk

The table below summarizes the allocation of undiscounted liabilities as at December 31, 2017, and 2016 based on due date and current market interest prices:

	From 1-3 months	From 3-12 months	From 1-5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2017				
Loans payable	6,459,444	24,027,403	48,623,839	79,110,686
Other liabilities	636,727	101,588	-	738,315
	7,096,171	24,128,991	48,623,839	79,849,001

	From 1-3 months	From 3-12 months	From 1-5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2016				
Loans payable	5,064,622	20,810,394	61,851,320	87,726,336
Other liabilities	43,810	319,096	225,875	588,781
	5,108,432	21,129,490	62,077,195	88,315,117

IV. Foreign currency risks

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The expected effect shortfall on changes in other currencies is equal and opposite to the effect of the increase as follows:

	2017		2016	
	Increase in currency rate	Effect on statement of income and comprehensive income	Increase in currency rate	Effect on statement of income and comprehensive income
Currency	(%)	U.S. $	(%)	U.S. $
ILS	10	97,804	10	79,304
Other currencies	10	15,398	10	28,903

27. Capital management

The primary objective of the capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. FATEN manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended December 31, 2017. During the year, the percentage of shareholders' ownership in Paid-in Capital was adjusted (note 9).

Capital comprises of paid-in capital, reserves and retained earnings with a total of U.S. $ 39,135,358 as of December 31, 2017, and total of U.S. $ 37,856,802 as at December 31, 2016.

28. Legal cases against FATEN

The number of litigations against FATEN as at December 31, 2017 and 2016, is one litigation in the amount of U.S. $ 284,900. FATEN's management and legal advisor believe that the provision is sufficient against this litigation.

29. Concentration of risk in geographic areas

FATEN carries out its activities in Palestine. The political and economic destabilization in the area increases the risk of carrying out business and could adversely affect performance.

30. Comparative figures

The corresponding figures as at December 31, 2016 have been reclassified in order to conform to the presentation for December 31, 2017, such reclassifications had no effect on the net income or equity of prior years.