

**PALESTINE FOR CREDIT AND
DEVELOPMENT - FATEN
FINANCIAL STATEMENTS
DECEMBER 31, 2003**

Independent Auditors' Report

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

We have audited the accompanying balance sheet of Palestine for Credit and Development (FATEN) as at December 31, 2003, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of FATEN's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palestine for Credit and Development as at December 31, 2003 and the results of its operations, changes in equity and its cash flows for the year then ended in conformity with the basis of accounting described in note 2.



Ramallah - Palestine
March 25, 2004

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Balance Sheet

December 31, 2003

		2003		2002	
	Notes	JOD	USD	JOD	USD
ASSETS					
Current Assets					
Cash and cash at banks	3	2,769,486	3,900,685	3,216,960	4,530,931
Loans receivable, net	4	843,212	1,187,623	303,573	427,567
Other current assets	5	19,935	28,078	16,737	23,573
Total current assets		3,632,633	5,116,386	3,537,270	4,982,071
Fixed assets, net	6	309,181	435,466	339,571	478,269
Total Assets		3,941,814	5,551,852	3,876,841	5,460,340
LIABILITIES AND EQUITY					
Current liabilities:					
Payables and Accruals	7	67,449	94,999	59,784	84,201
Non-current liabilities:					
Provisions for employees' indemnity	8	335,890	473,084	309,376	435,741
Total Liabilities		403,339	568,083	369,160	519,942
Equity					
Paid in capital		2,897	4,080	2,897	4,080
Accumulated donations		4,793,215	6,751,008	4,482,642	6,313,582
Accumulated losses		(1,257,637)	(1,771,319)	(977,858)	(1,377,264)
Total equity		3,538,475	4,983,769	3,507,681	4,940,398
Total Liabilities and Equity		3,941,814	5,551,852	3,876,841	5,460,340

The accompanying notes from 1 to 14 are integral part of these financial statements.

Statement of Income

For the year ended December 31, 2003

	Notes	2003		2002	
		JOD	USD	JOD	USD
Operating revenues					
Interest and fees on loans		139,753	196,835	236,405	332,965
Provision for loan losses		-	-	(175,270)	(246,859)
Net interest income		139,753	196,835	61,135	86,106
Other operating revenues					
Collection of loans written-off		107,876	151,938	54,548	76,828
Decrease in Provision for loan losses	4	33,928	47,786	-	-
Application fees		16,865	23,754	14,863	20,934
Penalty fees and others		15,612	21,989	9,704	13,668
Bank interests		29,645	41,753	36,462	51,355
Other revenues		2,086	2,938	20,679	29,125
Total other operating revenues		206,012	290,158	136,256	191,910
Total operating revenues		345,765	486,993	197,391	278,016
Operating expenses	9	(625,544)	(881,048)	(628,032)	(884,551)
Net operating loss		(279,779)	(394,055)	(430,641)	(606,535)
Grants to subsidise operations	10	279,779	394,055	445,788	627,871
Net loss after grants		-	-	15,147	21,336

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Statement of Changes in Equity

For the year ended December 31, 2003

	JOD			
	Paid in Capital	Accumulated Donations	Accumulated Losses	Total
2003				
Balance at January 1, 2003	2,897	4,482,642	(977,858)	3,507,681
Donations recorded directly to balance sheet	-	30,794	-	30,794
Grants to subsidise operations	-	279,779	-	279,779
Net operating loss for the year	-	-	(279,779)	(279,779)
Balance at December 31, 2003	2,897	4,793,215	(1,257,637)	3,538,475
Balance at December 31, 2003 (USD)	4,080	6,751,008	(1,771,319)	4,983,769
2002				
Balance at January 1, 2002	2,897	3,859,900	(547,217)	3,315,580
Donations recorded directly to balance sheet	-	176,954	-	176,954
Grants to subsidise operations	-	445,788	-	445,788
Net operating loss for the year	-	-	(430,641)	(430,641)
Balance at December 31, 2002	2,897	4,482,642	(977,858)	3,507,681
Balance at December 31, 2002 (USD)	4,080	6,313,582	(1,377,264)	4,940,398

The accompanying notes from 1 to 14 are integral part of these financial statements.

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Statement of Cash Flow

For the year ended December 31, 2003

	2003		2002	
	JOD	USD	JOD	USD
Cash flows from operations				
Net operating loss	(279,779)	(394,055)	(430,641)	(606,535)
Adjustment to reconcile net loss to net cash provided by operations:				
Depreciation	41,257	58,110	40,342	56,820
Provision for loan losses	(33,928)	(47,786)	6,324	8,907
Change in other current assets	(3,198)	(4,505)	56,397	79,432
Change in current liabilities	7,665	10,798	(44,651)	(62,889)
Change in non-current liabilities	26,514	37,343	85,034	119,765
Net cash flows used in operations	(241,469)	(340,095)	(287,195)	(404,500)
Cash flows from investing activities:				
Net (increase) decrease in loans portfolio	(505,711)	(712,270)	641,899	904,084
Purchase of fixed assets	(10,867)	(15,307)	(96,855)	(136,416)
Net cash flows (used in) from investing activities	(516,578)	(727,577)	545,044	767,668
Cash flows from financing activities:				
Donations and grants	310,573	437,426	622,742	877,102
Net cash flows from financing activities	310,573	437,426	622,742	877,102
Net (decrease) increase in cash	(447,474)	(630,246)	880,591	1,240,270
Cash, beginning of year	3,216,960	4,530,931	2,336,369	3,290,661
Cash, ending of year	2,769,486	3,900,685	3,216,960	4,530,931

The accompanying notes from 1 to 14 are integral part of these financial statements.

Notes To The Financial Statements

December 31, 2003

1. General

Palestine for Credit and Development (FATEN) was part of Save the Children Federation - West Bank and Gaza. On July 14, 1998 it was registered as a limited liability private not-for-profit corporation in Gaza under registration number 563124478 in accordance with the Company's law of 1929. FATEN commenced operations on March 1, 1999.

FATEN's authorized share capital is 10,000 common shares at par value USD 1 each. As of the financial statement date, the issued and fully paid capital amounted to USD 4,080.

FATEN aims to strengthen the economic base of the Palestinian micro-entrepreneurs, particularly women, through providing sustainable and high quality financial services suited to their needs.

The major 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
- Becoming financially sustainable institution.

FATEN employed 77 and 79 employees as at December 31, 2003 and 2002, respectively .

2. Significant Accounting Policies

– **Basis of Presentation**

The financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards, issued by International Accounting Standards Committee, except for interests on group and individual loans, which are accounted for when received, rather than when accrued.

The accounting policies are consistent with those used in the previous year.

– **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.

– **Loans Receivables**

Loans are reduced by the provision for loan losses. Management evaluates the adequacy of the provision for loan losses 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 loan losses charged to expense is based on management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb losses.

Management provides for loan losses every month in order to maintain the provision for loan losses at adequate levels. The adequacy of the provision for loan losses is determined by applying defined percentages to the outstanding balances in various aging categories as shown below:

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

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. Loans written off are charged against the provision for loan losses when management believes that the principal is unlikely to be collected. Loans that have been overdue for more than 180 days are automatically written-off every month.

Subsequent collections of loans previously written-off are recorded as other operating revenues.

– **Fixed Assets**

Fixed assets include property and equipment and are shown at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 4 to 50 years. Gains and losses on the sale of fixed assets are recognized upon the disposal of such assets.

Maintenance and repairs that do not extend the useful lives of assets are expensed in the year in which they are incurred.

– **Donations**

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 fixed assets are shown as direct additions to equity and the corresponding asset account.

– **Employees' Indemnity**

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%, each, based on the employees' basic monthly salaries.

– **Foreign Currency Transactions**

The books of accounts are maintained in Jordanian Dinar (JOD). Transactions including contributions received, which are dominated in foreign currencies are converted into JOD using exchange rates in effect at the time of each transaction.

Assets and liabilities, which are denominated in foreign currencies at the balance sheet date, are translated into JOD using the prevailing exchange rates at the balance sheet date.

Exchange differences arising from the conversion of foreign currency balances are charged to the statement of income.

Exchange rates against JOD as at the financial statements dates were as follows:

	2003	2002
	← JOD →	
United States Dollars	0.71	0.71
New Israeli Shekel	0.163	0.149

– Translation of Financial Statements

For the purpose of presentation to donors and other foreign interested parties, FATEN uses the U.S. Dollar as its reporting currency. Balances of assets and liabilities are translated to US Dollar using the exchange rates prevailing at the balance sheet date. All income and expense balances are translated to U.S. Dollar at the average rate of exchange prevailing during the year.

3. Cash and Cash at Banks

	2003		2002	
	JOD	USD	JOD	USD
Cash on hand	1,054	1,483	988	1,392
Deposits with banks in NIS	6,730	9,480	5,493	7,737
Deposits with banks in JOD	347,562	489,524	422,622	595,242
Deposits with banks in USD	2,243,044	3,159,217	2,478,704	3,491,132
	2,598,390	3,659,704	2,907,807	4,095,503
Deposits restricted for staff benefits	171,096	240,981	309,153	435,428
Total	2,769,486	3,900,685	3,216,960	4,530,931

4. Loans Receivables

– By type of loans:

	2003		2002	
	JOD	USD	JOD	USD
Groups loans	368,472	518,975	194,860	274,452
Fast loans	8,920	12,563	4,320	6,085
Individual loans	156,593	220,554	100,032	140,890
	533,985	752,092	299,212	421,427
Employees' loans	91,033	128,216	58,928	82,997
NGO's employees' loans	270,764	381,359	31,931	44,973
	895,782	1,261,667	390,071	549,397
Provision for loan losses	(52,570)	(74,044)	(86,498)	(121,830)
Net loans receivable	843,212	1,187,623	303,573	427,567

- Loans receivables classified by geographic distribution as at December 31, 2003 are as follows:

	Outstanding Balance	Provision For Loan Losses	Net Realizable Value	Net Realizable Value
	JOD	JOD	JOD	USD
North Area / West Bank	135,396	6,431	128,965	181,641
South Area / West Bank	201,667	17,764	183,903	259,018
Central Area / West Bank	361,797	-	361,797	509,573
Gaza Area	196,922	28,375	168,547	237,391
Total	895,782	52,570	843,212	1,187,623

- The movements on in loan receivables were as follows:

	Beginning	Issued	Repaid	Loans written- off	Ending	Ending
	JOD	JOD	JOD	JOD	JOD	USD
Group loan	194,860	952,350	778,738	-	368,472	518,975
Fast loan	4,320	36,600	32,000	-	8,920	12,563
Individual loan	100,032	232,309	175,748	-	156,593	220,554
Employees' Loans	58,928	72,369	40,264	-	91,033	128,216
NGOs employees' loans	31,931	326,516	87,683	-	270,764	381,359
Total	390,071	1,620,144	1,114,433	-	895,782	1,261,667

- The movement on the provision for loan losses during the year was as follows:

	2003		2002	
	JOD	USD	JOD	USD
Balance, beginning of year	86,498	121,830	80,175	112,923
(Deductions) additions during the year	(33,928)	(47,786)	175,270	246,859
Loans written-off	-	-	(168,947)	(237,952)
Balance, end of year	52,570	74,044	86,498	121,830

5. Other Current Assets

	2003		2002	
	JOD	USD	JOD	USD
Receivables from donors	6,903	9,722	1,616	2,276
Prepayments	13,032	18,356	15,121	21,297
Total	19,935	28,078	16,737	23,573

6. Fixed Assets

	2003		2002	
	JOD	USD	JOD	USD
Buildings	227,091	319,846	227,091	319,846
Vehicles	63,697	89,714	63,697	89,714
Furniture and Equipment	195,075	274,754	184,207	259,447
	485,863	684,314	474,995	669,007
Less: Accumulated Depreciation	(176,682)	(248,848)	(135,424)	(190,738)
Net Book Value	309,181	435,466	339,571	478,269

7. Payables and Accruals

	2003		2002	
	JOD	USD	JOD	USD
Unearned interest revenue	32,577	45,883	7,486	10,543
Customers' savings liability	20,337	28,644	20,065	28,260
Professional fees	7,476	10,530	4,988	7,026
Others	7,059	9,942	27,245	38,372
Total	67,449	94,999	59,784	84,201

8. Provision for Employees' Indemnity

The movement on the provision for employees' indemnity during the year 2003 was as follows:

	Balance, beginning of year	Additions	Payments	Balance, end of year	Balance, end of year
	JOD	JOD	JOD	JOD	USD
Provident fund	209,114	66,551	53,308	222,357	313,179
End of service benefit	100,262	31,317	18,046	113,533	159,905
Total	309,376	97,868	71,354	335,890	473,084

9. Operating Expenses

	2003		2002	
	JOD	USD	JOD	USD
Salaries and related benefits	453,890	639,280	460,032	647,932
Professional fees	14,035	19,768	8,314	11,710
Stationery and office supplies	8,834	12,442	8,632	12,158
Communication	29,651	41,762	25,673	36,159
Transportation	30,565	43,049	30,992	43,651
Occupancy costs	37,872	53,341	45,090	63,507
Equipment rental and maintenance	5,587	7,869	7,007	9,869
Depreciation expense	41,257	58,110	40,342	56,820
Miscellaneous	3,853	5,427	1,950	2,745
Total	625,544	881,048	628,032	884,551

10. Donations, Grants, and In-kind Contributions

Accumulated donations, recorded directly to the balance sheet consisted of:

2003	Ministry of Social Affairs	Sub-Grant #SC/FA 007 USAID	Sub-Grant #SC/FA 005 Rockdale Foundation	Total	Total
	JOD	JOD	JOD	JOD	USD
Balance at January 1, 2003				3,453,090	4,863,508
Loan portfolio	1,000	-	19,602	20,602	29,017
Fixed assets	-	10,192	-	10,192	14,355
Balance at December 31, 2003	1,000	10,192	19,602	3,483,884	4,906,880
2002	Sub-Grant #SC/FA 003 Save the Children RLF	Sub-Grant #SC/FA 007 USAID	Sub-Grant #SC/FA 005 Rockdale Foundation	Total	Total
	JOD	JOD	JOD	JOD	USD
Balance at January 1, 2002				3,276,136	4,614,276
Loan portfolio	155,850	-	15,575	171,425	241,444
Fixed assets	287	5,242	-	5,529	7,788
Balance at December 31, 2002	156,137	5,242	15,575	3,453,090	4,863,508

During 2003, USAID granted an amount of JOD 279,779 (USD 394,055) to subsidise FATEN's operations. During 2002, USAID and Save the Children granted an amount of JOD 175,272 (USD 246,862) and JOD 270,516 (USD 381,009) respectively to subsidise FATEN's operations.

11. Fair Values 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 consist of accrued expenses and other payables.

The fair value of financial instruments are not materially different from their carrying values.

12. Risk Management

– Interest rate risk

FATEN is exposed to interest rate risk on the time deposits that are considered interest-bearing assets (Note 3).

- **Liquidity risk**

FATEN limits its liquidity risk by maintaining adequate cash balances to meet its current obligations and to finance its operating activities.

- **Foreign currency risk**

FATEN maintains its major liabilities and assets in one currency which is the USD. In addition, its major donation revenues are collected in USD and most of its expenses are paid in USD.

13. Concentration of Risk in Geographic Area

FATEN 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 FATEN's performance.

14. Comparative Figures

Certain prior year accounts have been reclassified to conform with the presentation in the current year.