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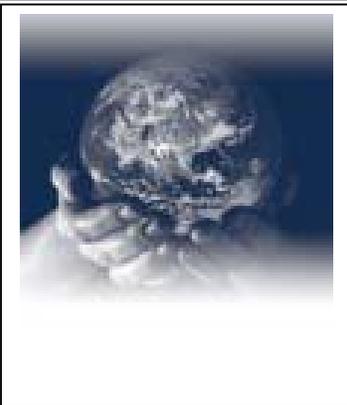
*Forward
Vision*

*A*ccountability



T

Transparency



*E*fficiency

*N*ovelty

2007

Annual Report



A *Word form the Managing Director*

To our Clients, Colleagues, Partners and Friends

Another year full of enormous achievements & challenges came to its end, it has been a privilege and a pleasure working with; FATEN Board members, dedicated Staff, trustworthy Clients and Partners, 2007 was a year for FATEN to become stronger, to survive in such uneven working environment. This year witnessed three key achievements for FATEN:

First, FATEN has successfully coalesced around a dynamic, proactive strategy, encouraging its stakeholders and the microfinance industry in general to be up front and take the initiative in meeting the numerous challenges that they face.

Second, FATEN has been continuously improving the way it works and in the way it manages itself. It has a clearer mission, vision and goals, and an excellent, strong Executive Committee to implement the policies of its BOD.

Third, as a direct result of its proactive strategy and its disciplined management, FATEN was able to improve the quality of the portfolio despite all obstacles, and at the same time kept serving the most vulnerable disadvantaged economically active families in Palestine. By end of FY 2007 FATEN disbursed 74,126 Loan amounted 46,072,613 USD since inception.

All three achievements have combined to broaden and strengthen FATEN influence and the respect in which it is held, both inside and outside the Microfinance industry. These accomplishments are the result of the hard work of our responsible and committed board members, and a very professional executive team.

WE at FATEN are growing together with our CLIENTS and will have flourishing bright future.

Anwer Jayyousi
Managing Director





Board of Directors

- Dr. Naser Abdel Karim – Chairman*
- Nebras Bssieso - Deputy Chairman*
- Nae'la Ayesh – Secretary*
- Dr. Sameer Abuzunaid – Treasurer*
- Dr. Samir Abdullah – Member*
- Heyam Qa'aqour – Member*
- Abdel Kareem Ashour - Member*
- Mohammad Al-Saga - Member*

Senior Management

- Anwar Al-Jayyousi – Managing Director*
- Fawz Abuhijleh – Operations Manager*
- Fares Abdel Nour - Finance & Admin Manager*
- Ina'am Zaqout - South Regional Manager*
- Suha Shakhshir - North Regional Manager*
- Muna Alalamy - Gaza Regional Manager*
- Sulaiman Rantisy- MIS Specialist*

Institutional Profile

Palestine for Credit & Development "FATEN" is an independent Palestinian not for profit corporation, fully dedicated to providing micro-finance services. It emerged out of a micro-finance program managed by Save the Children US (SCF). FATEN spun off from Save the Children during March 1999, and became fully responsible for the management of the whole program.

Mission

Palestine for Credit & Development "FATEN" is a pioneering national non for profit corporation. FATEN provides a variety of high quality and sustainable financial services, for low income and economically active small scale enterprises and micro entrepreneurs, especially women. This is achieved through high caliber staff and advanced infrastructure that contributes to family empowerment and community development in Palestine.

Vision

The FATEN Vision is to be the main point of call for micro finance in Palestine.

Strategic objectives

1. To penetrate the market and reach 10,000 active clients
2. To seek excellence in service provision
3. To achieve financial sustainability
4. To strengthen internal structure and governance
5. To promote local, regional and international relations
6. To ensure preparedness for proactive crisis management



Products

FATEN has six financial products categorized as micro business loans, small business loans and personal loans. This diversification of products minimizes the risks associated with portfolio. FATEN used two method for lending the regular lending and Islamic Financing.

(1) Group Guaranteed Lending (GGL); the GGL methodology is based on group lending program. Each group consists of a minimum of three members with loans starting at 200-3,000 (USD) for a period of 6-18 months.

Indicator	2006	2007	1995-2007
# of loans disbursed	1,544	747	65,874
\$ disbursed	1,154,510	402,288.7	29,118,665
Active loans	2,161	1487	-
OSP ² (\$)	866,080	674,872	-

(2) Fast Loan; this loan is given to FATEN active clients in business loans to meet urgent demands for cash during occasions such as Eid, Ramadan, back to school, and Christmas etc. The loan size is 50% of the current active loan or 700 USD, whichever is less and given for one up to three months.

Indicator	2006	2007	2000-2007
# of loans disbursed	127	3	22,525
\$ disbursed	49,068	1,549.3	949,134.3
Active loans	10	6	
OSP(\$)	3,198.6	2,396.2	

(3) Family Loans; this product targets entrepreneurs who have small businesses and their business size requires more than the GGL product offers, and at the same time they can provide a more solid guarantee than the previous category. The

² OSP stands for outstanding portfolio end of the period.

loan size ranges between 1,000 and 15,000 USD, for a loan duration up to 48 months. .

Indicator	2006	2007	2004-2007
# of loans disbursed	416	393	1,532
\$ disbursed	1,483,838	1,410,496	7,385,022
Active loans	1,248	1,146	-
OSP(\$)	3,037,626	2,526,313.8	-

(4) Home Improvement Loan; this product particularly targets Palestinians living in villages and refugee camps, to help them to improve their place of living. The loan size varies between 1,000 and 15,000 USD for up to 48 months.

Indicator	2006	2007	2005-2007
# of loans disbursed	220	82	765
\$ disbursed	953,397	328,498.7	4,471,089.3
Active loans	672	462	
OSP(\$)	3,105,946	2,232,456	

(5) Personal Loan; this loan is given to individuals for personal use such as purchasing a personal computer, paying school fees...etc. The loan size varies between 100 and 3,000 USD, with a duration of up to 24 months.

Indicator	2006	2007	2005-2007
# of loans disbursed	146	277	701
\$ disbursed	130,470	246,850	634,370
Active loans	246	277	
OSP(\$)	97,410	209,203.3	

(6) Staff/ NGO Loans; this loan is given to FATEN staff and other NGO staff and features competitive administration fees. These loans are 100% guaranteed by staff pensions and severance.

Indicator	2006	2007	2000-2007
# of loans disbursed	47	33	194
\$ disbursed	240,707	133,151	1,864,357.4
Active loans	96	73	-
OSP(\$)	338,129.6	193,961	-

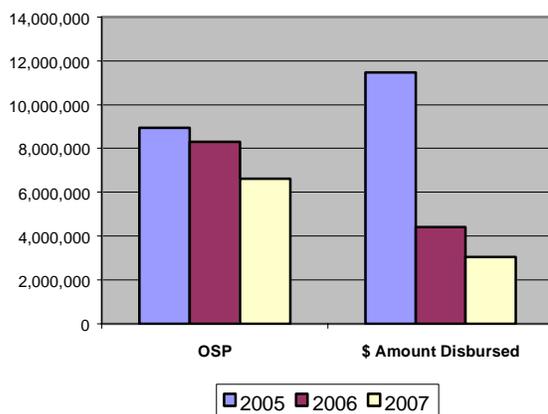
(7) Islamic Financing; this is not a product but a method of lending according to Islamic principle (Numbers below are not included in the above products).

Indicator	2006	2007	2005-2007
# of loans disbursed	35	62	173
\$ disbursed	389,581.6	238,452	1,373,485
Active loans	107	137	
OSP(\$)	845,786	765,841	

FATEN performance indicators are as follows:

Indicator	2006	2007	1995-2006
# of loans disbursed	2,535	1452	72,579
\$ disbursed	4,401,572	3,038,135	46,072,612
Active loans	4,540	3771	
OSP(\$)	8,294,176	6,605,043	
% women	98%	97%	
Avg. Loan size	\$1827	\$1751	

Comparing OSP & Amt Disb for the last three years



The above Chart clearly shows the decrease in Amount Disbursed and Outstanding Portfolio during FY 2007 the decline in year 2006 and 2007 compared to 2005 is due to economic crisis faced the Palestinians where the government employees stop receiving

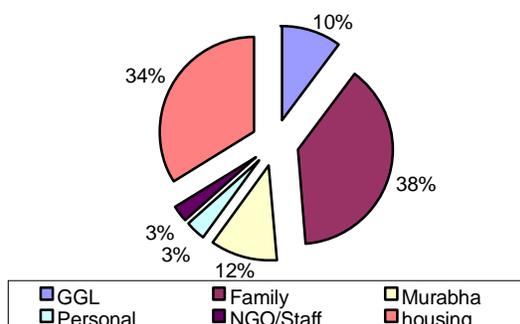
their salaries on monthly basis starting from April 2006 following the legislative council election where HAMAS won it and as a consequence the Western Countries stop their support to PNA, During the second half of FY 2007 Gaza was under daily bombing and intensive siege by the Israeli occupation forces where most of the basic goods were not found in the market, no Gas and consequently no electricity most of the day hours, or drinking water. The occupation, Economic crisis, conflict between the Palestinian Parties affected FATEN operations severely where the delinquency and Portfolio at Risk increased Dramatically, since micro finance service is very sensitive to unstable economic and political situation, but despite all of the above FATEN was the only institution continue serving the poor in Gaza.

The Repayment Rate and collection improved noticeably starting from July 2007 where conduct of business government was formed and the Western countries resume their support to PNA and as a result the government employees start receiving their salaries on Monthly basis.

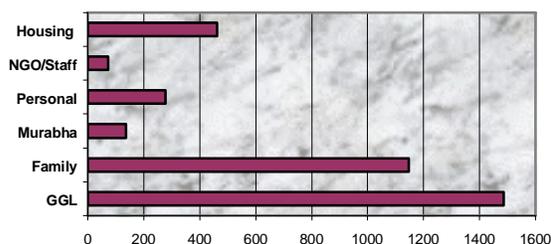
FATEN took conservative approach on its disbursement plan where priority was given to repeated and business loans, in addition to strict policy for collection to insure working on declining portfolio at risk

Another economic crisis appear in the fourth quarter of FY 2007 where prices of all products rises high 25%-50% in addition to the devaluation of US Dollar price which declined by 20% comparing to New Israeli Shekel this also affected FATEN operational sustainability since it compensated the staff for the decline of purchasing power for US\$ in addition to the increase of cost of living.

outstanding portfolio for FATEN Products



Number of Active Clients per Product



The above first chart shows the distribution of FATEN outstanding portfolio by products, where family loan has the highest percentage with 38%, while the second chart shows that most of FATEN clients are in GGL and Family loans taking into consideration that these two products are for business loans.

Portfolio Quality; FATEN portfolio quality was affected severely by the economic crisis, but starting of FY 2007 PAR was declining every month and after the government salary stabilized FATEN took a decision on December to shift all due payments for certain products, this decision was taken after the picture became clearer. FATEN was able to do this shifting earlier but as there was fear that this shifting will only postpone the problem, the shifting

decision was taken only for loans guaranteed by salary transferred and after government salaries were disbursed on time for certain period of time.

Month	PAR ³
	>30 day late
January	57.98%
February	58.08%
March	58.09%
April	56.97%
May	56.35%
June	55.87%
July	54.26%
August	52.56%
September	50.82%
October	48.58%
November	45.82%
December	5.70%

Operational & Financial Sustainability;

In general FATEN operational and financial sustainability for FY 2007 is better than FY2006 and despite the current economic and political situation, FATEN is in the right track to reach financial and operational sustainability.

Month	2006		2007	
	OPS	FS	OPS	FS
Jan	112.17%	70.63%	89%	71%
Feb	124.8%	76.85%	90%	73%
March	116.94%	72.81%	92%	76%
April	99.66%	64.11%	87%	72%
May	80.77%	54.09%	93%	77%
June	85.14%	54.39%	100%	82%
July	84.39%	51.64%	99%	82%
Aug	51.13%	35.95%	96%	81%
Sep	56.34%	37.01%	98%	84%
Oct	76.31%	44.6%	84%	72%
Nov	73.29%	43.29%	96%	82%
Dec	58.04%	39.22%	81%	73%
Annually	83.58%	53.52%	92%	77%

³ PAR stands for Portfolio at Risk



The above chart shows the gradual increase of operational sustainability through the past years, it only declined in FY 2006 where the economic crisis was severe, FATEN rebound in year 2007 and hopefully the coming year it will be able to reach operational sustainability and very close to reach financial sustainability.

Public Relations & Networking: FATEN is an active member in several networks, locally and internationally, including the Palestinian micro finance network, SANABEL, Mix Market, and Save the Children US, in order to gain and exchange experience with similar micro finance institutions. FATEN was also represented in several international and local meetings and conferences held around the world to eliminate poverty.

Staff Development & Training: During FY 2007 several training sessions were conducted by Palestinian microfinance network and more than 20 staff members participated. FATEN held a general meeting for all staff to discuss lessons learned, obstacles facing staff, and steps be taken to address current challenges.

Strategic Planning; The Board of Directors and the Management Team, in coordination with an external consultant, reviewed FATEN strategic plan for the next three years. The plan included; disbursement and expansion plan with new locations, products.

Fund Raising; FATEN continuously is working to get funds for loan capital due to the current economic and political crisis FATEN is looking for donors to cover its operational deficit in order to continue serving the poor.

During FY 2007 FATEN was able to get grant from SMART project for institutional development and deficit, and also got loan from DEEP project/Islamic Bank starting from June 2008.

Outreach & Geographical Presence:

FATEN has eleven branches and three regional offices, in addition to its headquarters, that serve 340 locations across the West Bank and Gaza. FATEN will open its twelfth branch in Qalqilia early 2008



Organizational Structure; FATEN has clear lines of authority between various positions, in addition to a clear segregation of duties with decentralized decision making. The FATEN Board of Directors is capable and offer their valuable support on a voluntary basis.

FATEN has an Internal Audit Department to help the Management & Board to mitigate risks, and is the only MFI institution that houses an Audit Department.

Field Visits; Mrs. Tony Blair visited FATEN in November, she listen to presentation about FATEN achievements and challenges, then she made field visit to two of FATEN clients in Ramallah city, in order to understand the obstacles they face on their daily life and business and the change FATEN made in their lives.

Success Story

Nuha Al Hayek

She is a Palestinian women from Biet Sahour next to Bethlehem, she is married with three children, since twenty years she started her business with a sowing machine, she used to sew for neighbors and friends she continue with this one sowing machine till she met FATEN credit agents seven years ago, she started with 300 USD loan then -600 USD 1000 USD, 1000USD, 1500USD, 3000USD - and gradually expand her business currently she has ten machines and six employees, her three children finished their university and helped one of them to open internet café, she says my life changed 360 degree after I joined FATEN, but I still have many dream that I want to achieve.

