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

Independent Auditors' Report & Financial Statements
For the year ended December 31, 2016

Talal Abu Ghazaleh & Co.
Certified Public Accountants

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

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Independent Auditors' Report

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Palestine for Credit and Development Company (FATEN)
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Report on the Audit of the Financial Statement

Opinion

We have audited the financial statements of **Palestine for Credit and Development (FATEN) (Non-for-Profit Private Shareholding Co.)–** Pages 5 to 26, which comprise the statement of financial position as of December 31, 2016, and the Statement of Income and comprehensive income and statement of changes in owners' equity, statement of cash flows for the year ended December 31, 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the company as of December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Palestinian Companies' Law and the regulations of Palestine Monetary Authority.

Basis for our Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 the company in accordance with the Code of Ethics for Professional Accountants registered under Board of Auditing Profession, which are in conformity with the code of ethics of accountants registered under Palestinian Association of Certified Public Accountants, in line with the ethical requirements related to our audit of the financial statements in Palestine, and we have fulfilled our other ethical responsibilities in accordance with those requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters "KAM"

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are key audit matters related to our audit of the financial statements:

Key Audit Matter		How the matter was Addressed in Our Audit
Adequacy of the provision for doubtful account Provision for doubt ful accounts constitutes an important part of financial statement, because its calculated based on management estimates and assumptions on the credit ratings, and the probability of collection affected by deterioration in the economic conditions in the case that the collateral received is not sufficient and based on that considering the the interest outstanding,in accordance with the regulations of the Palestinian Monetary Authority. The total amount of credit granted to customers by FATEN is USD 111,062,594 which represents 88% of total assets as of December 31, 2016. The nature of credit granted to customers and different risk assessment from sector to another, taking into consideration the requirements of the PMA.		The audit procedures implemented on the audit of FATEN includes understandings of portfolio of credit and facilities in addition to testing internal control procedures followed in the grant process, credit control and the assessment of the reasonableness of the estimates prepared by management on the provision and the collection process and outstanding interest. We have examined and obtained understanding of FATEN's policy for calculating provisions. We have also examined a sample of the portfolio and evaluated the company's procedures on the factors affecting the calculation of the provision for doubtful accounts, like evaluating the available collateral and management estimates for expected cash flow and the regulatory requirements issued by the PMA and discussed these factors with the executive management to verify the adequacy of the provisions recorded. We have also recalculated the balance of this account in compliance with PMA instructions, and we have reviewed the sufficiency of disclosures on the provision, outstanding interest and risks as presented in note (4).
Financing the company through loans The balance of loans received by the company from banks at the end of the year has amounted to USD 83,764,285 representing 94% of the total liabilities, which poses a risk in the event of inability to repay because of customers delay in paying their loans on timely basis.		We have reviewed loan agreements and obtained confirmatins from the lending institutions to verify the balances and interest and commission statements and charging the commission over the life of the loans and classifiying the, into short and long term and that related disclosures are sufficient and in conformity with International Financial Reporting Standards and PMA regulations. Also, we have reviewed that there is follow-up by the management to collect receivables from customers and raise lawsuits against the beneficiaries who does not repay their installments to provide Liquidity required repaying loans obtained from banks and financial institutions.

Other information
Management is responsible for the other information. The other information comprises the management report and the audit committee report and other required information by companies law and other related regulations, which we have obtained before the date of the auditor's report and which expected to be available to us after that date.

Other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and requirements of Palestinian companies' law and the regulations of Palestinian Monetary Authority (PMA), 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 the company'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 the company or to cease operations, or have no realistic alternative but to do so.
Management is responsible for overseeing the company'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 ISAs 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 ISAs, 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 the company'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 the company'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 the company 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 management 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.

<u>Report on Other Legal and Regulatory Requirements.</u>

The company keeps properly organized accounting records, we have also obtained all information and disclosures that we believe they are necessary to our audit and in within the information available to us, there are no irregularities to regulations of Palestine Monetary Authority or Palestinian Companies' Law which may materially effects the operations or the financial position of the company.

- The company is still in the process of tax settlement as explained in notes (23& 27).

The engagement partner on the audit resulting in this independent auditor's report is the Executive Officer, Jamal Milhem.

Talal Abu-Ghazaleh & Co.
License # (251/1997)

Jamal J. Milhem

Jamal Milhem, CPA
Certified Accountant License # (100/98)
Ramallah – Palestine
February 19, 2017
(Except for notes 23& 27 on August 2, 2017)

Talal Abu-Ghazaleh & Co.

Palestine for Credit and Development Company (FATEN)
Non-for-Profit Private Shareholding Co.
Ramallah – Palestine
Statement of Financial Position as of December 31, 2016 – *Exhibit "A"*

	Note	2016 USD	2015 USD
Assets			
Cash and cash equivalents	(3)	11,490,561	4,133,307
Loan portfolio - Net	(4)	111,062,594	77,148,095
Other current assets	(5)	1,305,817	941,320
Total current assets		**123,858,972**	**82,222,722**
Non-Current assets			
Fixed assets – Net	(6)	1,478,323	1,222,777
Land	(7)	1,346,560	1,346,560
Total assets		**126,683,855**	**84,792,059**
Liabilities and Owners Equity			
Current liabilities			
Over draft	(8)	-	1,483,900
Short term loans	(9)	24,706,403	12,264,315
Unearned interests and charges	(10)	618,675	2,395,294
Other payables and accrued expenses	(11)	949,841	791,751
Total current liabilities		**26,274,919**	**16,935,260**
Long term liabilities			
Long-term loans	(9)	59,057,882	34,935,178
Provision for employees' indemnity	(12)	2,335,252	2,638,782
Provision for borrowers Takaful fund	(13)	1,159,000	825,000
Total long- term liabilities		**62,552,134**	**55,334,220**
Total liabilities		**88,827,053**	**62,095,455**
Owners Equity			
Paid-in capital	(14)	28,000	28,000
Voluntary reserve to support capital	(15)	7,305,000	5,605,000
Risk reserve	(2 e)	1,146,737	810,072
Accumulated donations	(2 k)	15,237,268	15,237,268
Retained earnings – Exhibit "C"		14,139,797	7,777,499
Total Owners Equity		**37,856,802**	**29,457,839**
Total Liabilities and Owners Equity		**126,683,855**	**84,792,059**

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

General Manager **Chairman Directors**

Palestine for Credit & Development Company (FATEN)
Non-for-Profit Private Shareholding Co.
Ramallah – Palestine
Statement of Income and Comprehensive Income for the year ended December 31, 2016 ***Exhibit "B"***

	Note	2016 USD	2015 USD
Revenues			
Interest on loans		10,795,305	7,820,755
Morabaha revenues		1,913,867	1,566,665
Net interest and fees revenues		**12,709,172**	**9,387,420**
Other operating revenues			
Collection of loans previously written-off		75,152	55,348
Loan applications fees		350,264	203,660
Penalty fees		98,711	99,213
Bank interests		3,143	1,162
Other revenues	(16)	170,314	107,109
Revenues from donors		16,000	26,001
Total other operating revenues		**713,585**	**466,492**
Total operating revenues		**13,422,757**	**9,879,913**
Operating expenses			
Depreciation	(6)	(202,347)	(140,763)
Loss on disposal of fixed assets		(3,218)	(2,429)
Provision for doubtfull loans and morabaha		(456,752)	(1,043,407)
Opeating and administrative expenses	(17)	(5,195,840)	(3,769,803)
Financing expenses		(2,443,252)	(1,536,942)
Currency variances		50,157	16,848
Total operating expenses		**(8,251,252)**	**(6,476,496)**
Net proceeds from commition on guarantees notice	(18)	351,705	(193,959)
Net operating profits for the year – Exhibit "C" and "D"		5,523,210	3,209,458
Comprehensive income		-	-
Net income		**5,523,210**	**3,209,458**
		=========	=========

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

General Manager **Chairman Directors**

Palestine for Credit & Development Company (FATEN)
Non-for-Profit Private Shareholding Co.
Ramallah – Palestine
Statement of Changes in Owners Equity for the year ended December 31, 2016

Exhibit "C"

	NOTE	Paid in capital USD	Voluntary reserve to support capital USD	Risk reserve USD	Accumulated donations USD	Retained earnings USD	Total USD
December 31, 2016							
Balance as at 01/01/2016		28,000	5,605,000	810,072	15,237,268	7,777,499	29,457,839
Voluntary reserve	(15)	-	1,700,000	-	-	(1,700,000)	-
Risk reserve		-	-	336,665	-	(336,665)	-
Prior year adjustments	(19)	-	-	-	-	2,875,753	2,875,753
Net operating profit for the year		-	-	-	-	5,523,210	5,523,210
Balance as at 31/12/2016		**28,000**	**7,305,000**	**1,146,737**	**15,237,268**	**14,139,797**	**37,856,802**
December 31, 2015							
Balance as at 01/01/2015		12,516	3,555,000	570,900	15,237,268	6,622,314	25,997,998
Increase in paid capital		15,484	-	-	-	-	15,484
Voluntary reserve	(15)	-	2,050,000	-	-	(1,815,101)	234,899
Risk reserve		-	-	239,172	-	(239,172)	-
Net operating profit for the year		-	-	-	-	3,209,458	3,209,458
Balance as at 31/12/2015		**28,000**	**5,605,000**	**810,072**	**15,237,268**	**7,777,499**	**29,457,839**

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

General Manager **Chairman Director**

Palestine for Credit & Development Company (FATEN)
Non-for-Profit Private Shareholding Co.
Ramallah – Palestine
Statement of Cash Flows for the year ended December 31, 2016 *Exhibit "D"*

	Note	2016 USD	2015 USD
Operating activities			
Net operating profit – Exhibit - B		5,523,210	3,209,458
Adjustments to reconcile changes in net assets during the year to net cash used in (provided from) activities			
Non cash items			
Depreciation expenses	(6)	202,347	140,763
Provision for doubtful debts	(4,d)	456,752	1,043,407
Loss (Gain) on sales of assets		3,218	(2,429)
Provision for employees' indemnity	(12)	550,862	672,931
Prior year Adjustments		2,875,753	-
Changes in current assets and current liabilities:			
Net increase in loan and Murabaha portfolio		(34,371,251)	(23,249,842)
Increase in other current assets		(364,497)	(247,756)
Unrealized loans interest and fees		(1,776,619)	1,291,244
Increase in other payables and accrued expenses		158,090	23,424
Other provisions and reserves- Transferred from Financial Position		334,000	265,899
Employees' indemnity paid	(12)	(854,392)	(141,926)
Net cash flows (used in) operating activities		**(27,262,527)**	**(16,994,827)**
Cash flows from investing activities:			
Purchase of fixed assets	(6)	(488,539)	(426,798)
Proceedes from sale of fixed assets		27,428	5,657
Net cash flows used in investing activities		**(461,111)**	**(421,141)**
Cash flows from financing activities			
Increase in Padi-in-Capital		-	15,484
Loans		36,564,792	16,892,511
Overdraft		(1,483,900)	1,483,900
Net cash flows provided from financing activities		**35,080,892**	**18,391,895**
Net increase in cash and cash equivalents		7,357,254	975,927
Cash and cash equivalents beginning of year	(3)	4,133,307	3,157,380
Cash and cash equivalents ending of year	**(3)**	**11,490,561**	**4,133,307**

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

General Manager **Chairman Directors**

Palestine for Credit & Development Company (FATEN)
Non-for-Profit Private Shareholding Co.
Ramallah – Palestine
Notes to the Financial Statements

1. **Background:**
   - Palestine for Credit and Development Company (FATEN) was established on July 14, 1998, FATEN was registered as a Non-for-Profit Private Shareholding Co. in Gaza under registration number 563124478 in accordance with the Companies' Law of 1929. FATEN has commenced its operations on March 1, 1999.
     FATEN has branches in Ramallah and Al-Biereh, Hebron, Bethlehem, Nablus, Jenin, Tulkarem, Qalqilia, Al Yamoon, Jerusalem, Yatta, Birzeit, Tubas, Gaza, Jabalya, Rafah, Jericho, Ateel, Qabatya, Ni'leen, Bidya, Dora, and has offices in Ad-Dhahiriya, Saeer, Husan, Beit-Lahia, Tel Al-Hawa, Bani Suheila, Al-Shuja'yya, Ya'bad, Hawara, Beddo, Al Nusayrat, Khan Younus Deir Al-Balah, Askar and Jalazone .
   - Palestine Monetary Authority has approved the licence of the company and the mentioned branches and offices on May 28, 2014.
   - FATEN's authorized paid in capital is 28,000 USD as of the financial statements date at par value of USD 1 per share.
   - The governmental controlling party is the Ministry of Economy and Palestinian Monetary Authority.
   - The main objectives of FATEN are the following:
     - Operational and financial sustainability.
     - Steady growth in the portfolio.
     - Diversity of products and customers.
     - Branching and geographic coverage.
     - Risk management and internal audit.
     - strengthen and expanding staff.
     - Partnership and cooperation both internally and externally.
     - Social Responsibility.

   - The number of employees of the company is 282 as of December 31, 2016 (217 employees at December 31, 2015)
   - These financial statements for the year ended December 31, 2016 were approved by company's board of Director dessecion No.3 in its meeting No.5/2017 at August 12, 2017.
   - Palestine Monetary Authority has approved on August 28, 2017 to present the financial statements on the general assembly.

2. **Significant accounting policies:**

   a. **Basis of preparation:**

   The financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Boards (IASB).

   The currency of financial records is the U.S. Dollar.

b. Changes in accounting policies:

Consistent accounting policies have been used to prepare the Financial Statements except for adopting the following new and amended IFRS:

1. New and amended standards and interpretations that the company implemented since January, 2016. Those IFRS do not have an effect on the financial position or performance of the Company:
   - IAS 16: Property, Plant and Equipment (amended).
   - IAS 38: Intangible Assets that Clarification of Acceptable Methods of Depreciation and Amortization (amended).
   - IAS 34: Interim Financial Reporting about disclosure of information elsewhere in the interim financial report.(amended).
   - IAS 19: Employee Benefits that require the use of currency discount rate: regional market issue (amended).
   - IAS 1: Presentation of Financial Statements sets out the requirements for financial statements presentation and Disclosure of Accounting Policies.
   - IFRS 7: Financial Instruments: Disclosures of servicing contracts and applicability to condensed interim financial statements that not mentioned in IAS 34.
   - IFRS 11: Joint Arrangements outlines the Accounting for Acquisitions of Interests in Joint Operations
   - Annual Improvements to IFRSs 2012- 2014 Cycle

2. New and revised standards and interpretations that the company was not obligated to start implemented it from January , 2016:
   - IFRS 9: Financial Instruments Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting, and is mandatorily effective for periods beginning on or after 1 January 2018.
   - IFRS 15: Revenue from Contracts with Customers issued effective for periods beginning on or after 1 January 2018. IAS 18 Revenue from Contracts with Customers and IAS 11 Construction Contracts will be superseded by IFRS 15
   - IFRS 16: Leases that provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases more than 12 months. IAS 17 Leases will be superseded by IFRS 16 Leases .This standard will be effective for periods beginning on or after 1 January 2019.
   - IAS 12: Income Taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery. This standard will be effective for periods beginning on or after 1 January 2017.
   - Amendment on IAS 7 Statement of Cash Flows, which require more disclousure on changes in financing activities. This standard will be effective for periods beginning on or after 1 January 2017.

c. Use of Estimates:

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

d. **Provision for doubtful loans estimates:**

FATEN has used the following estimates to calculate provision for doubtful debts as per the requirments of Palestine Monetary Authority:

Financing type	Loan status	Percentage
Loans under observation	31-60 days overdue	%25
Loans under level	61-90 days overdue	%50
Doubtful loans	91-180 days over due	%75
Loans clasefied as losses	Over 180 days overdue	%100

e. **Risk reserve:**

According to Palestine Monetary Authority, publication no. 2/2014, lending institutions has to maintain a risk reserve amounts to 1% of total portfolio balance or other outstanding loans, and they can not reduce the risk reserve unless they obtain written approval by Palestine Monetary Authority.

f. **Rescheduling loans:**

In some cases, FATEN reschedules loans because of illness or any other emergency that may occur to borrower. Rescheduling includes increasing the term of the loan or amendment of payments schedule using the remaining balance of the loan for a fees 1% annually.

g. **Loans and Murabaha:**

Loans and Murabaha represents financial assets with fixed installments, that was provided or obtained and has no market price on active markets.

Loans and Murabaha is presented at cost less provision for doubtful debts and susbended fees and interest. Provision for doubtful debt is recorded when there is a doubt on the ability to collect the dues, and when there is objective evidence that an event has negatively affected the future cash flows and when there is an ability to estimate the value of the effect. The amount to be provisioned is recorded on the statement of income.

Interest and fees on inactive loans are susbended according to Palestine Monetary Authority regulations.

Loans with provisions were written off (after obtaining necessary approvals) in case that the procedures undertaken fails to increase the ability to collect them, by writing off the provision with the debt and any surplus is recognized in income statement and any collections on debts previously written off is recorded as revenues.

Interest and fees is not recorded on debts when legal procedures is being undertaken.

h. Fixed assets:

Fixed assets are stated at cost on the date of acquisition or, in the case of donations, at fair market value at date of donation. Depreciation is calculated using straight-line method over the useful lives of the property and equipment using the following annual depreciation rates:

– Buildings	2%
– Computers	15-25%
– Furniture and equipment	10-15%
– Office equipments	10-15%
– Vehicles	10%

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

i. Employees indemnity:

FATEN provides for employees' end of service benefits by accruing 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. Contributions by the employees and FATEN are set at 15% each based on the employees' basic monthly salaries.

j. Borrowers Takaful fund:

A fund was established to mitigate the risk of borrowers insolvency in case an emergency or calamity happens to one of the active borrowers, in this case the loan balance is covered by the fund which reduces the balance of doubtful loans and increases solvency and increases customers loyality. The company’s participation in the fund amounts to USD 100,000 and the fund is credited on monthly basis.

k. Donations and grants:

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

l. Interest paid and recovered on collateral notice (net proceeds):

Interests paid on collateral notice is recorded as expense to the company and recovered from the borrowers over the age of the original loan and when recovered it is recorded as revenue. Net proceeds are reported on income statements.

Prior year net proceeds are closed in prior year adjustment account to appear as account receivable for future year.

m. Interest Revenues:

FATEN uses accrual basis to calculate the credit interest for all loans, and then calculates the interest rate based on time average after taking the amount of balance and interest into consideration. The interests and fees were susbended after 31 days of the due date of payment according to instructions of Palestine Monetary Authority No. (2/2014).

n. Expenses recognition:

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

o. Foreign currency transactions:

The accounting records were maintained in US Dollars (USD), Transactions which are denominated in other currencies are converted to (USD) using the prevailing exchange rates at the date of the transaction.

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

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

	2016 USD	2015 USD
- JD	1.408	1.408
- NIS	0.2604	0.2551

3. Cash and cash equivalents:

This item consists of:

	2016 USD	2015 USD
Cash in hand	762,514	456,658
Cash at banks – NIS	460,269	78,382
Cash at banks – JD	98,484	31,765
Cash at banks – USD	9,632,688	1,949,513
Deposit at banks, restricted for staff provisions	536,606	1,616,989
Total	**11,490,561**	**4,133,307**

4. Net loan portfolio:

a. Loans details by type of loan:

	2016 USD	2015 USD
Islamic Financing Products	21,693,789	15,974,378
Commercial Loans	90,662,192	64,606,305
Total	**112,355,981**	**80,580,683**
Provision for doubtful loans	(1,293,387)	(3,432,588)
Loans portfolio – net	**111,062,594**	**77,148,095**

b. Loans details by geographical area:

	2016			2015		
Area	Outstanding balance USD	Provision for Doubtful Loans USD	Net realizable value USD	Outstanding balance USD	Provision for Doubtful Loans USD	Net realizable value USD
North of WB area	37,332,813	(340,870)	36,991,943	29,691,442	(1,072,793)	28,618,649
South of WB area	23,010,764	(480,754)	22,530,010	14,553,124	(1,231,553)	13,321,571
Gaza Strip	37,052,339	(164,647)	36,887,692	21,821,758	(335,135)	21,486,623
Center of WB area	14,445,604	(307,116)	14,138,488	13,671,754	(793,107)	12,878,647
Head office	514,461	-	514,461	842,605	-	842,605
Total	**112,355,981**	**(1,293,387)**	**111,062,594**	**80,580,683**	**(3,432,588)**	**77,148,095**

c. The change in loans receivable during 2016 was as follows:

	Beginning balance USD	Issued loans USD	Collections Repayments USD	written-off loans USD	Ending balance USD
Islamic Financing Products	15,974,378	15,388,450	9,650,277	(18,763)	21,693,789
Commercial Loans	64,606,305	69,499,915	43,246,455	(197,573)	90,662,192
Total	**80,580,683**	**84,888,365**	**52,896,732**	**(216,336)**	**112,355,981**

d. Portfolio quality:

d.1 This item consists of:

	2016 Outstanding Balance		2015 Outstanding Balance	
Item	Percentage	USD	Percentage	USD
On Time loans	%71.40	80,221,502	75.12%	60,530,161
Due from 1 to 30 days	%27.01	30,343,381	%23.18	18,681,919
Due from 31 to 60 days	%0.37	417,136	%0.33	266,948
Due from 61 to 90 days	%0.18	202,932	%0.16	126,007
Due from 91 – 180 days	%0.36	408,308	%0.41	330,618
Due from 181 to 360 days	%0.68	762,722	%0.80	645,030
Total doubtful loans and murabaha	**%28.60**	**32,134,479**	**%24.88**	**20,050,522**
Total	**%100**	**112,355,981**	**%100**	**80,580,683**

d.2 Distribution of portfolio by economic sectors:

This item consists of:

Economic sector	2016 USD	2015 USD
Housing Improvement Sector	33,391,327	20,260,888
Commercial sector	27,140,749	18,695,993
Industry and handicrafts sector	5,318,482	4,345,012
Agricultural sector	10,381,314	9,261,533
General Services Sector	10,011,801	8,526,981
Consumer sector	17,597,283	12,936,718
Tourism Sector	8,515,025	6,553,558
Total	**112,355,981**	**80,580,683**

d.3 The portfolio is distributed also according to the degree of risk:

This item consists of:

	2016 USD	2015 USD
Acceptable risk	80,221,502	60,530,161
Due:		
Up to 30 days	30,343,381	18,681,919
During the probationary period	417,136	266,948
Non Performing		
Loans under level	202,932	126,007
Doubtful Loans	1,171,030	975,648
Total	**112,355,981**	**80,580,683**

e. Change in the provision for loans losses during the year was as follows:

Description	2016 USD	2015 USD
Balance, beginning of year	3,432,588	2,514,314
Additions during the year	456,752	1,043,407
Adjustments	(2,510)	1,024
Written-off loans	(216,336)	(126,157)
Prior year adjustments	(2,377,107)	-
Total	**1,293,387**	**3,432,588**

The provision required according to Palestine Monetary Authority .

f. **<u>The loan portfolio as at Dec. 31, 2016 distributed by maturity as follows:</u>**

Description	**2016 USD**	**2015 USD**
Up to one year	45,978,354	31,836,901
From one year to 2 years	37,142,176	28,263,762
Over two years	29,235,451	20,480,020
Total	**112,355,981**	**80,580,683**

j. **<u>Collateral received from customers and fair values are as follows:</u>**
Personal guarantees, guarantee checks, collection checks guarantees, promissory notes, salary transfer guarantee , gold mortgage (fair value S1,079,198), cash, real estate (Buildings/Land), securities, vehicles (fair value $3,169,978), Guarantee funds.

k. **<u>Transactions on susbended interest and returns during the year:</u>**

Item	**2016 USD**
Begginning Balance	343,490
Additions	2,303,968
Deductions	(2,286,398)
Ending balance	**361,060**

5. <u>Other current assets:</u>
This item consists of:

Description	**2016 USD**	**2015 USD**
Prepaid expenses	134,098	123,850
PMA deposits	20,000	20,000
Interest receivable on loans and Morabaha	1,138,572	790,470
Deposits at Kiva	11,712	7,000
Checks under collection	1,435	-
Total	**1,305,817**	**941,320**

6. **Fixed assets**

This item consists of:

	Buildings USD	Computers USD	Furniture equipments USD	Office equipments USD	Vehicles USD	Total USD
At cost:						
Balance as at 1/1/2016	348,419	283,403	478,288	581,165	239,807	1,931,082
Additions	25,108	67,192	117,148	149,486	129,605	488,539
Disposals	-	(7,048)	(30,263)	(27,820)	(57,819)	(122,950)
Balance as at 31/12/2016	**373,527**	**343,547**	**565,173**	**702,831**	**311,593**	**2,296,671**
Accumulated depreciation						
Balance as at 1/1/2016	(104,073)	(177,384)	(126,278)	(242,899)	(57,671)	(708,305)
Depreciation	(6,987)	(40,573)	(49,526)	(69,923)	(35,338)	(202,347)
Disposals	-	7,048	27,046	26,804	31,354	92,252
Adjustments	(2)	69	52	(69)	2	52
Balance as at 31/12/2016	**(111,062)**	**(210,840)**	**(148,706)**	**(286,087)**	**(61,653)**	**(818,348)**
Net book value as at						
31/12/2016	**262,465**	**132,707**	**416,467**	**416,744**	**249,940**	**1,478,323**
31/12/2015	**244,346**	**106,019**	**352,010**	**338,266**	**182,136**	**1,222,777**

7. **Land (USD 1,346,560):**
    - Faten has purchased a land (Piece number 28, Plot number 19) in Al-Masyoun- Ramallah, the size of the land is 885 M^2, according to the contract dated June 14, 2014 and according to the contract annex dated June 28, 2014 for the price of USD 1,346,560 which represents the land value and regestration fees. The land has been registered in the name of FATEN and a registration voucher is issued based on the file number 2014/c/2140 and the contract number 2496/2014 dated July 13, 2014.
    - The purpose of purchasing this land to build headquarters for the company.

8. **Overdraft:**
   The amount of (USD 1,483,900) represents overdraft accounts on NIS and USD currencies with a credit ceiling of NIS 3,000,000 with an annual interest of 5% and USD 1,000,000 with an annual interest of 4.5% renewed annualy; collaturals consist of promissory notes in the amount of credit ceilings in 2015; The credit ceilings remained granted but not used by the company during 2016 .

9. Loans

This item consists of:

	Beginning Balance USD	Additions USD	Payments USD	Balance USD	Short-Term USD	Long-Term USD	Guarantees
UNDP / DEEP Project Loan	4,323,884	814,000	(1,407,821)	3,730,063	1,988,484	1,741,579	--
Kiva Loan	2,291,673	3,081,725	(2,622,694)	2,750,704	1,487,326	1,263,378	--
Quds Bank	4,805,632	3,902,083	(1,890,750)	6,816,965	2,160,801	4,656,164	--
Bank of Palestine Loan	2,963,863	5,000,000	(1,294,045)	6,669,818	2,032,883	4,636,935	--
Cairo Amman Bank Loan	629,738	781,250	(429,738)	981,250	512,500	468,750	--
Resp .PLANIS Loan	1,770,480	15,000,000	(2,240,177)	14,530,303	5,303,036	9,227,267	--
Housing Bank Loan	1,533,369	2,571,615	(980,273)	3,124,711	1,043,359	2,081,352	--
Spark Project	50,000	-	(29,051)	20,949	20,949	-	--
PFESP Project	88,666	3,200,000	(88,666)	3,200,000	788,635	2,411,365	--
Blue Or chard Loan	263,782	-	(263,782)	-	-	-	USAID
SANAD FUND for MSME	4,954,217	5,000,000	(2,734,217)	7,220,000	3,335,000	3,885,000	--
Palestinian Investment Fund	2,340,744	1,500,000	(1,283,813)	2,556,931	988,861	1,568,070	--
Palestinian Commercial Bank	3,263,967	-	(832,805)	2,431,162	526,473	1,904,689	--
ARAB FUND Loan	20,877,693	-	(3,417,693)	17,460,000	1,080,000	16,380,000	--
Grameen Agricole Loan	633,519	2,000,000	(933,519)	1,700,000	1,200,000	500,000	--
Incofin Loan	1,069,515	-	(498,086)	571,429	571,429	-	--
Triple Jump	-	5,000,000	-	5,000,000	1,666,667	3,333,333	--
Cyrano	-	5,000,000	-	5,000,000	-	5,000,000	--
	51,860,742	**52,850,673**	**(20,947,130)**	**83,764,285**	**24,706,403**	**59,057,882**	

- This loans represents loans granted to FATEN by international organizations and local banks to finance small and micro finance projects in Palestine.
- Interest rates ranging between 3% to 5.85% annually.

10. Unearned interests and fees:

This item consists of_interest and fees on declining-interest commercial declining loans, which is as follows:

	2016 USD	2015 USD
Interest and fees on declining-interest commercial loans	618,675	2,395,294
Total	**618,675**	**2,395,294**

11. Other payables and accrued expenses:

This item consists of:

	2016 USD	2015 USD
Additional payments to borrowers	166,985	143,008
Accrued expenses	28,502	25,238
Discount at source	22	1
Employees income tax	1,362	2,048
Interest payable on commercial loans	361,060	343,490
Outstanding interest	390,687	248,410
Social committee- FATEN's employees	-	5,849
Unidentified suspentions and pending bank reconciliation items	12	23,707
Illegal Returns	1,211	-
Total	**949,841**	**791,751**

12. Provisions for employees' indemnity:

This item consists of:

	Beginning Balance USD	Additions USD	Payments USD	Ending Balance USD
Provident fund	1,756,392	270,275	(823,012)	1,203,655
End of service endimnity	882,390	280,587	(31,380)	1,131,597
Total	**2,638,782**	**550,862**	**(854,392)**	**2,335,252**

13. Provision for borrowers Takaful fund:

a. This item consists of:

	2016 USD	2015 USD
Provision for Takaful fund	825,000	544,000
Additions	431,716	380,726
Payments	(97,716)	(99,726)
Total	**1,159,000**	**825,000**

b. The item above in the amount of (USD 1,159,000) represents the provision for Takaful fund to face the insolvency of borrowers, the company's contribution amounts to (USD 100,000) and the fund is credited on monthly basis.

14. Paid in capital:

Capital consists of 28,000 shares with a par value of one U.S. Dollar for each share; During the year 2015 the capital was increased by U.S. Dollar 15,484. Capital certificate was amended at December 6, 2015.

Bored of directors share in capital is USD 7,252 and executive management share is USD 8,232 and the following is a table of the names of the significant shares:

	USD
Ann Lin Foster	2,600
Anwar Hussein	2,664
Sadiq Asaad	2,072
Mona Alami	2,016
Suha Shakhshir	2,664
Sami al Aghbar	2,072
Nael Salim	2,664
Total	**16,752**

15. Voluntary reserve to support capital:

Based on board of directors decision, a voluntary reserve was allocated to support capital in the amount of USD 1,700,000 and it was charged to retained earnings, following is the details of changes on the reserve:

	2016 USD	2015 USD
Beginning balance	5,605,000	3,555,000
Transferred from other provisions		
Social responsibility provision	-	50,000
Training provision- borrowers	-	48,864
Insurance provision – borrowers	-	50,000
Saving provision- borrowers	-	50,000

Education provision – grants to the children of borrowers	-	36,035
Total charged from other provisions	**5,605,000**	**3,789,899**
Charged to retained earnings from statement of changes in owners Eequity	1,700,000	1,815,101
Ending balance	**7,305,000**	**5,605,000**

16. Other (revenues) expenses:

This item consists of:

	2016 USD	2015 USD
Revenues from sale of fixed assets	14,979	-
Transfering loans and morabaha fees	91	105
Rounding diferrences on borrowers installments	98,640	46,538
other operating revenues	56,525	59,642
Others	79	826
Total	**170,314**	**107,109**

17. Operating and administrative expenses:

a- This item consists of:

	2016 USD	2015 USD
Salaries and related benefits	3,295,819	2,481,318
Incentives for employees	567,093	330,120
Equipment rental and maintenance	484,617	299,792
Advertisement	150,039	136,870
Communications	129,213	117,198
Transportation and car expenses	120,174	94,148
Water, Electrisity and Heat	87,213	71,480
Developmental programs and training	69,718	49,510
Professional fees	67,785	45,394
Palestinian monetary authority inquiries fees	52,789	38,131
Stationery and publications	55,120	39,856
Closing loans before maturity	20,940	15,506
Social responsibility expenses	50,662	11,800
Others expenses	44,658	38,680
Total	**5,195,840**	**3,769,803**

18. Net proceeds from collateral notice :

a. This item consists of:

	2016 USD	2015 USD
Collateral notice fees recovered from customers	1,299,147	583,321
Paid collateral notice fees	(947,442)	(777,280)
TOTAL	**351,705**	**(193,959)**

b. Net proceeds were eliminated by closing them in prior years adjustments (note 19) as proceeds received in advance from prior years.

19. Prior year adjustments:

This item consists of:

	2016 USD	2015 USD
Closing proceeds from collateral notice	498,646	-
Reverse the increase in provision of doubtful debts	2,377,107	-
TOTAL	**2,875,753**	**-**

20. Fair value of financial instruments:

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

21. Risk management policies:

a. Intrest risk:

The company faces the risk of change in interest on short-term deposits (Note 3).

b. Liquidity risk:

The company management minimizes the liquidity risk through maintaining sufficient cash to meet the financial obligations and its operating expenses.

c. Foreign currency risk:

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

d. Credit risk:

The company management minimizes the financing risks through obtaining suffecient collatrals and guarantee eg. Deferred checks and promissory notes and transferred salaries.

e. Concentration of risk in geographical 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 the performance.

f. Portfolio maturity risk analysis:

This item consists of:

	Current USD	More than 6 Months USD	6 to 12 Months USD	More than 12 months USD	Without maturity USD	Total USD
Cash and cash equivalents	10,954,561	536,000	-	-	-	11,490,561
Net loans and morabaha	-	22,989,177	22,989,177	65,084,240	-	111,062,594
Other current assets	-	306,591	305,398	693,828	-	1,305,817
Fixed assets	-	-	-	-	2,824,883	2,824,883
Total assets	**10,954,561**	**23,831,768**	**23,294,575**	**65,778,068**	**2,824,883**	**126,683,855**
Loans	-	12,986,506	11,719,897	59,057,882	-	83,764,285
Other payables	-	2,259,653	2,732,166	70,949	-	5,062,768
Total liabilities		15,246,159	14,452,063	59,128,831	-	88,827,053
Owners equity	-	-	**-**	-	37,856,802	37,856,802
Total liabilities and owners equity	**-**	**15,246,159**	**14,452,063**	**59,128,831**	**37,856,802**	**126,683,855**
Gap	**10,954,561**	**8,585,609**	**8,842,512**	**6,649,237**	**(35,031,919)**	**-**
Accumulated Gap	**10,954,561**	**19,540,170**	**28,382,682**	**35,031,919**	**-**	**-**

22. Portfolio risk:

This item consists of:

Item	2016	2015
PAR> 30 days late	%1.54	%1.68
Recovery Ratio	%96.18	%96.27
Portfolio in Arrears> 30 days late	%0.49	%0.64
Loans risk ratio	%0.19	%0.14
Loan loss ratio	%0.19	%0.02
Productivity and efficiency:		
Portfolio yeild	%13.91	%14.06
Operating expense ratio	%8.55	%9.22
Active clients per Credit officer	245	249
Active clients per staff	141	144
Portfolio per Credit Officer	693,555	634,494
Average balance of active loans	2829	2,552
Cost per loan made	325	346
Profitability		
Return on assets	%4.82	%4.40
Return on owners equity	%15.24	%11.90
Operational sustainability ratio	%163	%153
Outreach & productivity		
Number of active clients	39,713	31,575
Amount of outstanding portfolio	112,355,981	80,580,683
Number of disbursed loans	25,354	18,645
Amount of disbursed loans	84,888,365	60,791,469

23. Taxes:

Tax reserve: the company has not recorded a reserve for the possible tax liabilites that may arise from income tax law No.17 for the year 2004 and its ammendments, which is valid until 2010 and income tax law No.8 for the year 2011 which exempts non-for-profit companies from income tax, were the company is registered on Ministry of Finance and Planning –VAT department- in Gaza under an exempted tax payer file type (No. 563124478) and the company has obtained a clearance certificate from VAT department up to October 28, 2016.

24. Related party transaction

a. In ordinary course of business, the company enters into transactions with shareholder, board of directors, and higher management which are considered related parties in accordance to Palestine Monetary Authority. Related party transactions consist of the following:
   1. There is no non performing loans.
   2. The total amount of benefits received by higher management including their salaries has amounted to USD 495,127.
   3. Board of Directors expenses including transportation -except salaries- has amounted to USD 7,487.
   4. General manager salaries has amounted to USD 164,929.
   5. Total amount of higher management benefits and salaries has amounted to USD 375,296.

b. Related party transaction:

This item consists of:

	2016			
	Related parties			
Item	**Affiliated company** USD	**Management and executive management** USD	**Other related parties** USD	**Total** USD
Balance sheet accounts				
Direct facilities	-	167,669	30,704	198,373

25. Lawsuits raised against the company

There is one lawsuit raised against the company which subject is financial claim and the attorney is not expecting any direct or indirect liability on the company according to his letter dated April 13, 2017.

26. Contingent liabilities:

There are no contingent liabilites on the company as of the financial statements date.

27. Subsequent events:

During 2017, the company received an Estimation Notice from Ramallah income tax department for prior years, and the tax consultant of the company has submited a statement of objection on July 17, 2017 in which he requested to revoke the estimation and related benalties. The opinion of the lawyer and legal consultant of the company according to his letter dated August 2, 2017 is that the company will not be obligated to pay any taxes as of December 31, 2016 because it is categorized as tax exempted.

28. Comparative figures:

Certain comparative figures have been reclassified to comply with the current financial statements presentation.