

**PALESTINE FOR CREDIT AND
DEVELOPMENT - FATEN
FINANCIAL STATEMENTS
31 DECEMBER 2002**

AUDITORS' REPORT TO THE SHAREHOLDERS OF
PALESTINE FOR CREDIT & DEVELOPMENT - FATEN

We have audited the accompanying balance sheet of Palestine For Credit & Development (FATEN) as of 31 December 2002, 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. The financial statements of FATEN as of 31 December 2001 were audited by another auditor whose report dated 23 May 2002, expressed an unqualified opinion on those statements.

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 present fairly, in all material respects, the financial position of FATEN as of 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The logo for Ernst & Young, featuring the company name in a blue, cursive script font.

Ramallah, Palestine
March 16, 2003

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Balance Sheet

31 December 2002

	Notes	2002		2001
		JOD	USD	USD
ASSETS				
Current Assets				
Cash and cash equivalents	3	3,216,960	4,530,931	3,290,661
Loans receivable, net	4	303,573	427,567	1,340,558
Other current assets	5	16,737	23,573	103,005
Total current assets		3,537,270	4,982,071	4,734,224
Fixed assets - net of accumulated depreciation	6	339,571	478,269	398,672
Total Assets		3,876,841	5,460,340	5,132,896
LIABILITIES AND EQUITY				
Current liabilities				
Payables and Accruals	7	59,784	84,201	147,090
Non current liabilities				
Staff end of service benefits	8	309,376	435,741	315,975
Total Liabilities		369,160	519,942	463,065
Equity				
Share Capital: Authorized share capital 10,000 common share at par value USD 1, issued and fully paid USD 4,080		2,897	4,080	4,080
Accumulated donations		4,482,642	6,313,582	5,436,479
Retained earnings		(977,858)	(1,377,264)	(770,728)
Total equity		3,507,681	4,940,398	4,669,831
Total Liabilities and Equity		3,876,841	5,460,340	5,132,896

The attached notes 1 to 11 form part of these financial statements.

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Statement of Income

For the year ended 31 December 2002

		2002		2001
	Note	JOD	USD	USD
Operating revenues				
Interest and fees on loans		236,405	332,965	641,645
Provision for loan losses	4	(175,270)	(246,859)	(124,394)
Net interest income		61,135	86,106	517,251
Other operating revenues				
Application fees		14,863	20,934	55,099
Consultancy fees		14,644	20,625	18,787
MIS sales		6,035	8,500	25,500
Penalty fees and others		12,800	18,028	10,470
Income from written off loans		51,452	72,468	4,631
Bank interest		36,462	51,355	63,889
Total other revenues		136,256	191,910	178,376
Total operating revenues		197,391	278,016	695,627
Operating expenses	9	(628,032)	(884,551)	(886,756)
Net operating loss		(430,641)	(606,535)	(191,129)
Grant income	10	445,788	627,871	269,479
Net income after grants		15,147	21,336	78,350

The attached notes 1 to 11 form part of these financial statements.

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Statement of Changes in Equity

For the year ended 31 December 2002

Indicator	Note	Balance		Additions		Balance		Additions		Balance	
		31 Dec. 2000	In 2001	In 2001	31 Dec. 2001	In 2002	31 Dec. 2002	In 2002	31 Dec. 2002	31 Dec. 2002	31 Dec. 2002
		JOD	JOD	JOD	JOD	JOD	JOD	USD	USD	USD	USD
Share capital (Authorized share capital 10,000 common share at par value USD 1, issued and fully paid USD 4,080)		2,897	-	2,897	-	2,897	4,080				4,080
Donations (recorded directly to balance sheet)	10	2,303,224	972,912	3,276,136	176,954	3,453,090	4,614,276	249,232			4,863,508
Grants (recorded through income statement)	10	401,987	181,777	583,764	445,788	1,029,552	822,203	627,871			1,450,074
Accumulated donations		2,705,211	1,154,689	3,859,900	622,742	4,482,642	5,436,479	877,103			6,313,582
Retained operating income (loss)		(411,515)	(135,702)	(547,217)	(430,641)	(977,858)	(770,728)	(606,536)			(1,377,264)
Total equity		2,296,593	1,018,987	3,315,580	192,101	3,507,681	4,669,831	270,567			4,940,398

The attached notes 1 to 11 form part of these financial statements.

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Statement of Cash Flow

For the year ended 31 December 2002

	Note	2002		2001
		JOD	USD	USD
Cash flows from operations (excluding grants)				
Net operational loss		(430,641)	(606,535)	(257,556)
Adjustment to reconcile net income with funds provided from operations:				
Depreciation	9	40,342	56,820	51,933
Changes in current assets	5	56,397	79,432	(41,751)
Change in current liabilities	7	(44,651)	(62,889)	3,116
Change in non-current liabilities	8	85,034	119,765	126,740
Total funds provided from (used in) operations		(293,519)	(413,407)	(117,518)
Cash flows from investing activities:				
Net (increase) decrease in loan portfolio	4	648,223	912,991	(235,275)
Purchase of fixed assets	6	(96,855)	(136,416)	(16,601)
Total cash provided from (used in) investing activities		551,368	776,575	(251,876)
Cash flows from financing activities:				
Increase in donations and grants	10	622,742	877,102	1,692,380
Increase in cash from financing activities		622,742	877,102	1,692,380
Net increase in cash		880,591	1,240,270	1,322,986
Cash at the beginning of the year		2,336,369	3,290,661	1,967,675
Cash at the ending of the year	3	3,216,960	4,530,931	3,290,661

The attached notes 1 to 11 form part of these financial statements.

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Notes To The Financial Statements

31 December 2002

1. ACTIVITIES

Palestine for Credit and Development (*FATEN*) was part of Save the Children Federation - West Bank and Gaza. On 14 July 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. FA TEN commenced operations on 1 March 1999.

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.

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 79 employees as of 31 December 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Standards Interpretations Committee of the IASB and applicable requirements of the Palestinian law.

The financial statements have been presented in Jordanian Dinars.

The financial statements are prepared under the historical cost convention

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 accounting 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 change relates to the determination of provisions for loan losses.

Loans, loan loss Allowance, Interest Accrual, and write-offs

Loans have been reduced by the allowance for loan losses.

Interest on loans is accounted for when received rather than when accrued.

Management evaluates the adequacy of the allowance for loan losses regularly. Factors considered in evaluating the adequacy of the allowance 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 allowance 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.

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Notes To The Financial Statements

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

Loan status	Allowance percentage
1 – 30 days overdue	10%
31 – 60 days overdue	50%
61 – 90 days overdue	75%
91 – 180 days overdue	100%

Because FATEN is not a licensed financial intermediary, its allowance policy is based not on national regulations, but on management's analysis of the historical performance of the overdue portfolio, age by the same categories. Loan losses (write-offs) are charged against the allowance for loan losses when management believes that the principal is unlikely to be collected. Loans that have been overdue more than 180 days are automatically written-off every month.

Fixed Assets:

Fixed assets include property and equipment and are shown at cost, less accumulated depreciation and amortization. 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 exceed 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.

Accrued Staff Benefits

FATEN provides for employees end of service benefit by accruing for one month compensation for each year of service based on the last salary paid during the year.

FATEN also provides employees a provident fund which represents total contributions made by the employees and FATEN at the rate of 10% each computed on the basic monthly salaries.

Foreign Currency Transactions

The books of accounts are maintained in Jordanian Dinar (JOD). Transactions, which are denominated in currencies other than JOD, are converted into JOD as follows:

Transactions, including contributions received, which are expressed or denominated in foreign currencies other than JOD are converted into JOD at the spot exchange rate prevailing at the date of each transaction.

Balances of assets and liabilities in local currency and foreign currencies other than JOD are converted to JD using the exchange rate prevailing at the balance sheet date.

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

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Notes To The Financial Statements

31 December 2002

Fixed assets and related depreciation are translated at historical rates. Additions to cost were translated using the average rate of exchange prevailing during the year.

Translation of Financial Statements

For the purpose of presentation to donors and other foreign interested parties, FA TEN uses the U.S. Dollar as its reporting currency. The financial statements are translated to U.S. Dollar as follows:

Balances of assets and liabilities are translated to US Dollar using the exchange rate 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 ended 31 December 2002.

3. Cash on Hand and Deposits with Banks

	2002		2001
	JOD	USD	USD
Cash on Hand	988	1,392	1,409
Deposits with banks in NIS	5,493	7,737	6,369
Deposits with banks in JD	422,622	595,242	998,034
Deposits with banks in USD	2,478,704	3,491,132	1,997,773
	2,907,807	4,095,503	3,003,585
Deposits Restricted for Staff Benefits	309,153	435,428	287,076
Total	3,216,960	4,530,931	3,290,661

4. Loans and Loan loss Provision

By Type of Loans:

	2002		2001
	JOD	USD	USD
Groups	194,861	274,452	1,210,830
Fast	4,320	6,085	23,592
Individual	100,032	140,890	187,989
	299,213	421,427	1,422,411
Employees' loans	58,928	82,997	31,070
NGOs employees' loans	31,931	44,973	-
	390,072	549,397	1,453,481
Provision for Loans Losses	(86,499)	(121,830)	(112,923)
Net loans receivable	303,573	427,567	1,340,558

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Notes To The Financial Statements

31 December 2002

Performing loans by Geographic Distribution as of 31 December 2002 is as follows:

	Outstanding Balance	Provision For Losses	Net Realizable Value	Net Realizable Value
	JOD	JOD	JOD	USD
North Area-Performing	74,394	24,500	49,894	70,273
South Area-Performing	125,915	33,624	92,291	129,987
Gaza Area-Performing	98,904	28,375	70,529	99,337
	299,213	86,499	212,714	299,597
Employees' Loans	58,928	-	58,928	82,997
NGOs employees' loans	31,931	-	31,931	44,973
Total	390,072	86,499	303,573	427,567

Activities in performing loans and related provisions for loan losses are as follows:

	Beginning	Issued	Repaid	Write off Loans	Ending	Ending
	JOD	JOD	JOD	JOD	JOD	USD
Loans						
Groups	859,689	767,600	1,280,672	151,756	194,861	274,452
Fast	16,750	52,150	63,473	1,107	4,320	6,085
Individual	133,472	210,901	228,258	16,083	100,032	140,890
Employees' Loans	22,060	72,308	35,440	-	58,928	82,997
NGOs employees' loans	-	49,266	17,335	-	31,931	44,973
Total Performing	1,031,971	1,152,225	1,625,178	168,946	390,072	549,397
General Provision						
Balance at beginning of year					80,175	112,923
Provision for Loans Losses					175,270	246,859
Loans written off					(168,946)	(237,952)
Balance at end of year					86,499	121,830
Net performing Loans as of 31 December 2002					303,573	427,567

5. Other Current Assets

	2002		2001
	JOD	USD	USD
Receivables from donors	1,616	2,276	70,001
Other receivables	229	323	1,677
Prepayments	14,892	20,974	31,327
Total	16,737	23,573	103,005

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Notes To The Financial Statements

31 December 2002

6. Fixed Assets

	2002		2001
	JOD	USD	USD
Buildings	227,091	319,846	219,846
Vehicles	63,697	89,714	89,714
Furniture and Equipment	184,207	259,447	223,031
	474,995	669,007	532,591
Less: Accumulated Depreciation	(135,424)	(190,738)	(133,919)
Total	339,571	478,269	398,672

7. Payables and Accruals

	2002		2001
	JOD	USD	USD
Audit Fees	4,988	7,026	8,775
Salaries and Related Benefits	-	-	15,044
Savings Liability	20,065	28,260	70,227
Contingent Liability	3,771	5,312	2,434
Others	30,960	43,603	50,610
Total	59,784	84,201	147,090

8. Staff Benefits

	2002		2001
	JOD	USD	USD
Provident Fund	209,114	294,527	213,152
Severance Pay	100,262	141,214	102,823
Total	309,376	435,741	315,975

PALESTINE FOR CREDIT AND DEVELOPMENT - FATEN

Notes To The Financial Statements

31 December 2002

9. Operating Expenses

	2002		2001
	JOD	USD	USD
Salaries and Related Benefits	460,032	647,932	643,481
Professional Fees	8,314	11,710	14,401
Stationery and Office Supplies	8,632	12,158	14,675
Communication	25,673	36,159	37,745
Transportation	30,992	43,651	51,655
Occupancy Costs	45,090	63,507	61,415
Equipment Rental and Maintenance	7,007	9,869	7,472
Depreciation Expense	40,342	56,820	51,933
Miscellaneous	1,950	2,745	3,979
Total	628,032	884,551	886,756

10. Donations, Grants, and In-kind Contributions During 2002

Item	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
Balance at January 1, 2002				583,764	822,203
Operating cost deficit	270,516	175,272	-	445,788	627,871
Balance at December 31, 2002	270,516	175,272	-	1,029,552	1,450,074

11. Comparative Forms

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