REEF FINANCE - Reef
FINANCIAL STATEMENTS
DECEMBER 31, 2008

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Independent Auditors' Report to the Board of Directors
Reef Finance (Reef)

We have audited the accompanying financial statements of Reef Finance (Reef) - not for Profit Company, which comprise of the balance sheet as of December 31, 2008, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Reef Finance as of December 31, 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

May 13, 2009
Ramallah, Palestine

Balance sheet
As of December 31, 2008

	Notes	2008 U. S. $	2007 U. S. $
Assets			
Non- current Assets:			
Plant and equipment	3	61,130	40,300
		61,130	40,300
Current Assets:			
Loans receivable	4	1,084,848	-
Contributions receivable	5	1,017,541	2,476,491
Other current assets	6	4,327	938
Cash and cash equivalent	7	366,473	81,625
		2,473,189	2,559,054
Total Assets		2,534,319	2,599,354
Equity, Subordinate Loan and Liabilities			
Equity and Subordinate loan:			
Paid-in-share capital	1	96,000	55,000
Retained earnings		67,354	-
		163,354	55,000
Subordinate loan	8	1,200,000	-
Total equity and subordinate loan		1,363,354	55,000
Non-current liabilities			
Long term loan	9	70,031	-
Provisions for employees' indemnity	10	45,239	4,653
Deferred revenue	11	61,130	40,300
		176,400	44,953
Current liabilities:			
Current portion of long term loan	9	23,344	-
Cash margin	12	93,187	-
Temporary restricted contributions	13	794,582	2,490,669
Deferred interest revenue	14	63,482	-
Other payables and accruals	15	19,970	8,732
		994,565	2,499,401
Total Liabilities		1,170,965	2,544,354
Total Equity, Subordinate Loan and Liabilities		2,534,319	2,599,354

The attached notes from 1 to 21 form part of these financial statements

Income Statement
For the year ended December 31, 2008

	Notes	2008 U. S. $	For the period from inception on June 2, 2007 to December 31, 2007 U. S. $
Revenues			
Temporary restricted contributions released from restriction	13	504,686	83,933
Interest and commission	16	60,785	-
Deferred revenues recognized	11	12,965	1,655
Other revenues		6,570	-
		585,006	85,588
Expenses			
General and administrative	17	474,668	83,933
Provision for doubtful loans	4	30,019	-
Depreciation	3	12,965	1,655
		517,652	85,588
Profit for the year/period		67,354	-

The attached notes from 1 to 21 form part of these financial statements

Statement of Changes in Equity
For the year ended December 31, 2008

	Paid-in share capital	Retained earnings	Total
	U. S. $	U. S. $	U. S. $
2008			
Balance as of January 1, 2008	55,000	-	55,000
Income for the year	-	67,354	67,354
Total income and expense for the year	-	67,354	67,354
Paid-in capital	41,000	-	41,000
Balance as of December 31, 2008	96,000	67,354	163,354

	Paid-in share capital	Retained earnings	Total
	U. S. $	U. S. $	U. S. $
2007			
Balance as of July 2, 2007	-	-	-
Income for the period	-	-	-
Total income and expense for the period	-	-	-
Paid-in capital	55,000	-	55,000
Balance as of December 31, 2007	55,000	-	55,000

Statement of Cash Flows

For the year ended December 31, 2008

	2008	For the period from inception on June 2, 2007 to December 31, 2007
	U. S. $	U. S. $
Operating Activities:		
Profit for the year/period	67,354	-
Adjustment:		
Provision for employees indemnity	41,943	4,653
Depreciation	12,965	1,655
Provision for doubtful loans	30,019	-
Deferred revenues recognized	(12,965)	(1,655)
	139,316	4,653
Change in working capital:		
Contributions receivable	1,458,950	(2,476,491)
Loans receivable	(1,114,867)	-
Other current assets	(3,389)	(938)
Cash margin	93,187	-
Other current liabilities	74,720	8,732
Temporary restricted contributions and Deferred revenue	(1,662,292)	2,532,624
Payments of employees' indemnity	(1,357)	-
Net cash (used in) from operating activities	(1,015,732)	68,580
Investing activities:		
Purchase of plant and equipment	(33,795)	(41,955)
Net cash used in investing activities	(33,795)	(41,955)
Financing activities:		
Paid-in share capital	41,000	55,000
Subordinate loan	1,200,000	-
Long term loan	93,375	-
Net cash flows from financing activities	1,334,375	55,000
Increase in cash and cash equivalent	284,848	81,625
Cash and cash equivalents, beginning of year/period	81,625	-
Cash and cash equivalent, end of year/period	366,473	81,625

The attached notes from 1 to 21 form part of these financial statements

Notes to the Financial Statements

As of December 31, 2008

1. General

Reef Finance is a Palestinian private not for Profit Company (Reef) registered on July 2, 2007 in Gaza under registration number of (563143734) with an authorized share capital of 100,000 shares of 1 U.S. Dollar par value each. Paid in capital as of December 31, 2008 amounted to U.S. $ 96,000.

Reef provides diversified financial services on a continuous basis directed towards micro and small businesses, especially in the rural areas.

The Palestinian Agricultural Relief Committees (PARC) – major shareholder signed an agreement on August 30, 2007 with the Netherlands Representative Office to the Palestinian Authority in the amount of U.S. $ 2,747,385 to establish Reef Finance.

Based on the agreement between PARC and Reef, dated September 10, 2007, and later discussions, PARC is obligated to pay Reef the sum of U.S. $ 2,616,557 of which U.S. 1,500,000 to be used for lending, U.S. $ 915,140 to be used for general and administrative expenses and U.S. $ 201,417 to be expensed directly by PARC for the benefit of Reef.

Reef financial statements as of December 31, 2008 were approved by the Board of Directors on May 13, 2009.

2.1 Basis of preparation

The financial statements are prepared in accordance with the International Financial Reporting Standards.

The financial statements have been prepared under the historical cost convention.

The financial statements have been presented in U.S. Dollars, which represents the functional currency of Reef.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that Reef has adopted the following new and amended IFRS and IFRIC Interpretations during the year. Adoption of these standards and interpretations did not have any effect on the financial performance or position of Reef.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
IFRIC 12 - Service Concession Agreements
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
The following IFRS and IFRIC interpretations have been issued but are not yet mandatory, and have not been adopted by Reef:

IFRS 2 - Share-based Payment (Revised)
IFRS 8 - Operating Segments
IAS 23 - Borrowing Costs (Revised)
IFRIC 13 - Customer Loyalty Programmes

2.3 Summary of Significant Accounting Policies

Estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires Reef's management to exercise its judgment in the process of applying the accounting policies. Reef's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

<u>Providing for doubtful debts</u>
Reef provides services to a broad based clientele, mainly on credit terms. Estimates, based on Reef's historical experience, are used in determining the level of debts that Reef believes will not be collected.

<u>Useful lives of tangible assets</u>
Reef's management reassesses the useful lives of tangible assets, and makes adjustments if applicable, at each financial year end.

Revenue recognition

<u>Donations revenue</u>

Donors' unconditional pledges are those pledges where donors do not specify prerequisites that have to be carried out by the recipient before obtaining the fund.

Donations revenue from unconditional pledges are recognized as follows:

- Unconditional pledges that are not restricted for specific purpose or time are recognized as revenue when the pledge is obtained.
- Unconditional pledges that are temporary restricted by donors for specific purpose or time are recognized as revenue when such purpose or time is satisfied.

<u>Interest revenues</u>
Interest on loans, paid by customers before the due date of the payment, is recorded as deferred interest revenue.
Interest revenue is recognized using the effective interest rate method.

<u>Commission revenues</u>
Commissions are recorded as revenues when the related services are delivered.

<u>Deferred revenues</u>

contributions related to property and equipment are stated at fair value, recorded as deferred revenues and recognized as revenue on a systematic basis over the useful life of the asset.

Finance Costs

Finance costs are recorded when accrued using the effective interest rate method.

Expenses recognition

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

Contributions receivable

Contributions receivable from donors are the amounts not collected from the unconditional pledges. Contributions receivable are stated at the original amount of the unconditional pledge less amounts received and any uncollectible pledges. An estimate for the uncollectible amount is made when the collection of full unconditional pledge is no longer probable.

Loans receivable

Loans are stated at the amount of outstanding principal reduced by an allowance for loan losses. In determining the value of the allowance, other variables are taken into consideration such as the size of the loan portfolio, experience gained from previous losses, the present economic situation and its effects on loan holders, and the limit of commitment of individuals to the terms of the loan. The allowance is determined based on the management estimations.

Management provides against defaulted loans every month in order to maintain the allowance for loan losses 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 follows:

Loan status	Allowance (percent)%
1-6 days overdue	2
7-30 days overdue	10
31-60 days overdue	25
61-90 days overdue	50
More than 90 days overdue	100

Loans receivable with a provision for doubtful accounts are written off in case the procedures taken for collecting the loans are ineffective. Any excess in the provision is taken to the income statement while the collected receivables from previous loans that have been already written off are added to revenues.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is computed on a straight-line basis over the useful lives of the asset as follow:

	Useful lives (years)
Office furniture	7
Office equipment	5
Lease hold improvements	4
Computer Software	4

The carrying values of property and equipment are reviewed 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, being the higher of their fair value less costs to sell or their value in use.

Expenditures incurred to replace a component of an item of property, and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditures are recognized in the statement of activities as the expense is incurred.

Provisions

Provisions are recognized when Reef has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be reliably measured.

Loans

Loans are recorded at fair value after deducting any direct costs. A revaluation is made thereafter at the amortized cost using the effective interest method.

Accounts payable and accruals

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

Provisions for employees' indemnity

Reef 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. Reef also provides employees a provident fund. Contributions by the employees and Reef are set at 5% and 10%, respectively, based on the employees' basic monthly salaries.

Income taxes

Reef is a not-for-profit organization; accordingly, it is not subject to income tax.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement. Impairment is determined as follows:

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

Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income.

3. Plant and equipment

	Office furniture	Office equipment	Leasehold improvements	Computer Software	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:					
Balance at January 1, 2008	9,200	31,612	1,143	-	41,955
Additions	6,523	11,573	321	15,378	33,795
Balance at 31 December 2008	15,723	43,185	1,464	15,378	75,750
Depreciation:					
Balance at January 2008	208	1,375	72	-	1,655
Depreciation for the period	2,017	7,716	342	2,890	12,965
Balance at 31 December 2008	2,225	9,091	414	2,890	14,620
Net Carrying Amount:					
At 31 December 2008	13,498	34,094	1,050	12,488	61,130
At 31 December 2007	8,992	30,237	1,071	-	40,300

4. Loans receivable, net

Following are the loans according to the type:

	2008	2007
	U. S. $	U. S. $
Individual loans	587,886	-
Group loans	526,981	-
	1,114,867	-
Allowance for doubtful loans	(30,019)	-
	1,084,848	-

Following is the movement on the provision for doubtful loans:

	2008	2007
	U. S. $	U. S. $
Beginning balance	-	-
Additions during the year	30,019	-
Ending balance	30,019	-

Following is the distribution of loans by geographic area:

	Outstanding balance	Provision for doubtful loans	Net realized value
	U. S. $	U. S. $	U. S. $
Ramallah and the north of the West Bank	679.997	(30,019)	649,978
South of the West Bank	420,774	-	420,774
Gaza	14,096	-	14,096
	1,114,867	(30,019)	1,084,848

Following is the movement on the loans balance during 2008:

	Beginning balance	Issued loans	Repayments	Ending balance
	U. S. $	U. S. $	U. S. $	U. S. $
Individual loans	-	744,530	156,643	587,887
Group loans	-	1,315,577	788,597	526,980
Total	-	2,060,107	945,240	1,114,867

5. Contributions receivable

	Balance beginning of year	Additions	Cash received	Expenses paid directly by the donor	Written off	Balance end of year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Palestinian Agricultural Relief Committees (PARC)	2,476,491	-	1,374,508	84,442	-	1,017,541
USAID (Smart)	-	40,000	40,000	-	-	-
International Organization for Agricultural Cooperation Development	-	7,250	2,394	-	4,856	-
	2,476,491	47,250	1,416,902	84,442	4,856	1,017,541

6. Other current assets

	2008	2007
	U. S. $	U. S. $
Due from employees	3,287	-
Prepaid expenses	983	938
Others	57	-
	4,327	938

7. Cash and cash equivalents

	2008	2007
	U. S. $	U. S. $
Cash on hand	1,299	273
Cash at banks	36,368	81,352
Term deposits at banks*	328,806	-
	366,473	81,625

* Term deposits at banks include term deposits with an original maturity of one month. The average interest rate, on JOD and USD deposits, was 3.5% during the year 2008.

8. Subordinate loan

Based on the signed agreement between PARC and Reef, as September 10, 2007, and later discussions, PARC agreed to transfer U.S. $ 1,500,000 for Reef, to be used for granting loans. During year 2008, Reef received from PARC U.S. $ 1,200,000, as part of the total agreement amount.

The amount received was booked as a subordinate loan, based on the intent of PARC to transfer the amount granted to capital by December 31, 2012. PARC preservers it's right to the loan, incase Reef was liquidated or operations were closed before December 31, 2012.

9. Long term loan

On September 20, 2008 Reef signed a loan agreement with an Italian Bank, Atika, for the amount of EURO 75,000 (equivalent to U.S. 93,375). The loan is subject to an annual interest rate of Euribor (three months) plus 2%. The loan will be repaid in four instalments per annum each one is for EURO 18.750 (equivalent to U. S. $ 23.344). The first instalment is due in October 2009 and the last instatement will due in July 2010.

Reef is committed to the repayment of the loan in EURO.

Following is the loan maturities:

	U.S. $
Matures during 2009	23,344
Matures during 2010	70,031
	93,375

10. Provisions for employees' indemnity

Following is the movement on the provision for employees' indemnity:

	Beginning balance	Additions during the year	Payments during the year	Ending balance
	U.S. $	U.S. $	U.S. $	U.S. $
Employees' end of service benefits	1,575	17,013	-	18,588
Provident fund	3,078	24,930	1,357	26,651
	4,653	41,943	1,357	45,239

11. Deferred revenues

This item represents equipment acquired during the period out of temporary restricted contribution. Movement on deferred revenues during the period was as follows:

	2008	2007
	U.S. $	U.S. $
Balance, beginning of year / period	40,300	-
Additions	33,795	41,955
Deferred revenues recognized	(12,965)	(1,655)
Balance, end of year / period	61,130	40,300

12. Cash margins

This amount represents the balance of cash margins deposited by creditors as collateral for the granted loans.

These cash margins are deposited in local banks and are renewed on a monthly basis.

13. Temporary Restricted Contributions

This item comprises of temporary restricted contributions subject to purpose or time restriction by donors. These amounts represent the difference between the pledges received and the expenditures made out to satisfy the purpose stipulated by the donor. As of December 31, 2008, temporary restricted contributions comprise of the following:

	Balance, beginning of year	Additions	Temporary restricted contributions released from restriction	Transferred to subordinate loan	Deferred revenue	Written off	Balance, end of the year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Palestinian Agricultural Relief Committees (PARC)	2,490,669	-	466,036	1,200,000	30,051	-	794,582
USAID (Smart)	-	40,000	38,650	-	1,350	-	-
International Organization for Agricultural Cooperation Development	-	7,250	-	-	2,394	4,856	-
	2,490,669	47,250	504,686	1,200,000	33,795	4,856	794,582

14. Deferred Interest Revenue

	2008	2007
	U.S. $	U.S. $
Prepaid interest – individual loans	53,454	-
Prepaid interest –group loans	10,028	-
	63,482	-

15. Other Payables and Accruals

	2008	2007
	U.S. $	U.S. $
Accrued expenses	16,767	3,789
Others	3,203	4,943
	19,970	8,732

16. Interest and Commissions

	2008			2007
	Interests	Commissions	Total	Total
	U.S. $	U.S. $	U.S. $	U.S. $
Individual loans	18,010	6,449	24,459	-
Group loans	31,382	4,944	36,326	-
	49,392	11,393	60,785	-

17. General and administrative expenses

	2008	2007
	U.S. $	U.S. $
Salaries and related benefits	279,661	27,462
Research fees	52,145	-
Professional fees	32,290	37,535
Rent	25,057	5,288
Advertisement	24,190	-
Transportation	11,470	2,112
Communication	11,080	-
Training fees	11,067	1,076
Utilities	7,066	-
Stationery and office supplies	5,485	4,912
Insurance	3,732	-
Maintenance	3,231	-
Interest on loans	1,123	-
Other	7,071	5,548
	474,668	83,933

18. Fair values of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalents, contributions receivable, loans receivables and other current assets. Financial liabilities consist of account payables, cash margins, long term loan and other current liabilities.

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

19. Related Party Transactions

Related parties represent associated companies, shareholders, directors and key management personnel of the company, and entities controlled, jointly controlled or significantly influenced by such parties.

Balances and transactions with related parties included in the financial statements are as follows:

	Relation	2008 U.S. $	2007 U.S. $
Due from donors	Major shareholder	1,017,541	2,476,491
Temporary restricted contributions	Major shareholder	794,582	2,490,669

Transactions with related parties included in the income statement:

	Relation	2008 U.S. $	2007 U.S. $
Temporary restricted contributions released from restrictions	Major shareholder	466,036	83,933
Key management personnel compensation		52,780	11,406
End of service benefits		10,078	2,450

20. Risk management

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

Liquidity risk

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

The following table demonstrates the balances of the financial obligations as of December 31, 2008 according to their maturities:

December 31, 2008	On demand	Less than 3 months	3-12 months	1-5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Long term loan	-	-	24,516	75,775	100,291
Cash Margins	-	-	63,187	30,000	93,187
Other current liabilities	-	-	19,970	-	19,970
	-	-	107,673	105,775	213,448

December 31, 2007	On demand	Less than 3 months	3-12 months	1-5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Other current liabilities	-	-	8,732	-	8,732
	-	-	8,732	-	8,732

Foreign currency risk

Reef maintains its major liabilities and assets in one currency which is the U.S. $. In addition, its major donations revenues are transferred from donors in U.S. $ and most of the expenses are paid in U.S. $.

The following table demonstrates the sensitivity to a reasonable change in the US $ exchange rate, with all other variables held constant. The Jordanian Dinar (JOD) is linked to the U.S Dollar, therefore, no effect, resulting from fluctuation in JOD rate, is expected on the financial statements:

2008	Increase / decease in NIS to U.S. $	Effect on income statement and profit	Increase / decease in EURO to U.S. $	Effect on income statement and profit
	U.S. $	U.S. $	U.S. $	U.S. $
U.S. $	+5	441	+5	4,654
U.S. $	-5	(441)	-5	(4,654)

2007	Increase / decease in NIS to U.S. $	Effect on income statement and profit	Increase / decease in EURO to U.S. $	Effect on income statement and profit
	U.S. $	U.S. $	U.S. $	U.S. $
U.S. $	+5	89	+5	-
U.S. $	-5	(89)	-5	-

Credit risk

Credit risk is the risk that the creditors or other parties will be unable to fulfil their obligations to Reef. The company is limiting its credit risk by imposing credit limits to its granted loans in addition to the collaterals from the loan holders.

21. Concentration of Risk in Geographic Area

Reef 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 of Reef.