

**REEF FINANCE COMPANY (NOT FOR PROFIT)**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
AND INDEPENDENT AUDITOR'S REPORT**

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**Independent Auditor's Report  
To the Board of Directors**

**Report on the financial statements**

We have audited the accompanying financial statements of Reef Finance Company – not for profit (hereinafter "Reef"), which comprise the statement of financial position as of December 31, 2011, statement of income and other comprehensive income, statement of changes in equity and statement of cash flows 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 the 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.

**Auditor's 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 of 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 auditor's 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 in 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 on the financial statements**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Reef as of December 31, 2011, and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers  
Ramallah: April 25, 2012

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

**STATEMENT OF FINANCIAL POSITION**

(All amounts in US Dollar)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	(5)	66,498	57,856
Loans receivable	(6)	3,486,436	2,476,012
		<u>3,552,934</u>	<u>2,533,868</u>
<b>Current assets</b>			
Loans receivable	(6)	1,196,702	849,879
Deposit with Palestinian Monetary Authority	(7)	30,439	30,439
Contributions receivable	(8)	-	2,542
Other current assets	(9)	72,254	34,868
Cash and cash equivalents	(10)	3,200,245	2,550,296
<b>Total current assets</b>		<u>4,499,640</u>	<u>3,468,024</u>
<b>Total assets</b>		<u>8,052,574</u>	<u>6,001,892</u>
<b>Equity, subordinate loan and liabilities</b>			
<b>Equity and subordinate loan</b>			
Share capital	(11)	195,500	185,500
Retained earnings		2,647,049	1,240,295
Temporarily restricted contributions	(8)	1,340,782	1,851,428
<b>Total equity</b>		<u>4,183,331</u>	<u>3,277,223</u>
Subordinate loan	(12)	1,500,000	1,500,000
<b>Total equity and subordinate loan</b>		<u>5,683,331</u>	<u>4,777,223</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term loan	(13)	1,388,303	440,982
Provision for employees' indemnity	(14)	204,400	145,950
<b>Total non-current liabilities</b>		<u>1,592,703</u>	<u>586,932</u>
<b>Current liabilities</b>			
Long term loan-matures during next one year	(13)	378,050	292,077
Cash margin	(15)	19,919	21,561
Deferred interest revenue	(16)	347,409	290,078
Payables and accruals	(17)	31,162	34,021
<b>Total current liabilities</b>		<u>776,540</u>	<u>637,737</u>
<b>Total liabilities</b>		<u>2,369,243</u>	<u>1,224,669</u>
<b>Total equity, subordinate loan and liabilities</b>		<u>8,052,574</u>	<u>6,001,892</u>

- The notes on pages 7 to 22 are an integral part of these financial statements.

- The financial statements on page 3 to 22 were authorized for issue by the Board of Directors on April 8, 2012 and were signed on its behalf.

Mr. Khalil Sheeha  
Chairman of the Board

Mr. Mohammad Abu Dalu  
General Manager

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

**STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME**

(All amounts in US Dollar)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
<b><u>Revenues</u></b>			
Temporarily restricted contributions released from restriction	(8)	1,981,389	1,301,874
Interest	(18)	448,796	361,929
Commission	(18)	50,386	35,352
Deferred revenues recognized		-	52,334
Other revenues		15,051	5,026
<b>Total Revenues</b>		<b><u>2,495,622</u></b>	<b><u>1,756,515</u></b>
<b><u>Expenses</u></b>			
General and administrative expenses	(19)	846,725	586,230
Currency variance – (gain)		(3,920)	(47,405)
Interest on loans		25,186	23,053
Allowance for doubtful loans	(6)	197,380	131,904
Depreciation expense	(5)	23,497	18,743
<b>Total Expenses</b>		<b><u>1,088,868</u></b>	<b><u>712,525</u></b>
<b>Profit for the year</b>		<b><u>1,406,754</u></b>	<b><u>1,043,990</u></b>
<b>Other comprehensive income</b>		<b><u>-</u></b>	<b><u>-</u></b>
<b>Total comprehensive income</b>		<b><u>1,406,754</u></b>	<b><u>1,043,990</u></b>

- The notes on pages 7 to 22 are an integral part of these financial statements.

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**Financial statements for the year ended December 31, 2011

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**STATEMENT OF CHANGES IN EQUITY**

(All amounts in US Dollar)

	<u>Note</u>	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as of January 1, 2010</b>		<u>100,000</u>	<u>196,305</u>	<u>296,305</u>
Issue of share capital	(11)	85,500	-	85,500
Profit for the year and total comprehensive income		-	1,043,990	1,043,990
<b>Balance as of December 31, 2010</b>		<u>185,500</u>	<u>1,240,295</u>	<u>1,425,795</u>
Issue of share capital	(11)	10,000	-	10,000
Profit for the year and total comprehensive income		-	1,406,754	1,406,754
<b>Balance as of December 31, 2011</b>		<u>195,500</u>	<u>2,647,049</u>	<u>2,842,549</u>

- The notes on pages 7 to 22 are an integral part of these financial statements.

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

**STATEMENT OF CASH FLOWS**

(All amounts in US Dollar)

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Profit for the year	1,406,754	1,043,990
<b>Adjustments for:</b>		
Provision for employees' indemnity	76,601	66,431
Depreciation	23,497	18,743
Provision for doubtful loans	197,380	131,904
Deferred interest revenue	(324,203)	(295,689)
Deposit with Palestinian Monetary Authority	-	(439)
Deferred revenues recognized	-	(52,334)
<b>Cash flows before changes in working capital</b>	<u>1,380,029</u>	<u>912,606</u>
<b>Changes in working capital:</b>		
Contributions receivable	2,542	232,186
Other current assets	(37,386)	(23,522)
Cash margin	(1,642)	(42,313)
Payables and accruals	2,776	(21,071)
<b>Cash (used in) provided by operating activities</b>	<u>(33,710)</u>	<u>145,280</u>
Loans receivable	(1,554,627)	(606,266)
Interest received	381,534	335,958
Payments of employees' indemnity	(18,151)	(15,506)
Interest paid	(5,635)	(2,000)
<b>Net cash provided by operating activities</b>	<u>149,440</u>	<u>770,072</u>
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment	(32,139)	(24,265)
<b>Net cash flows used in investing activities</b>	<u>(32,139)</u>	<u>(24,265)</u>
<b>Cash flows from financing activities</b>		
Proceeds from share capital settlement	10,000	85,500
Proceeds from borrowings - Loans	1,308,395	441,582
Repayments of borrowings - Loans	(275,101)	(153,411)
Temporarily restricted contributions	(510,646)	/91,1/6
<b>Net cash flows provided by financing activities</b>	<u>532,648</u>	<u>1,164,847</u>
<b>Increase in cash and cash equivalents</b>	<u>649,949</u>	<u>1,910,654</u>
Cash and cash equivalents ,beginning of the year	<u>2,550,296</u>	<u>639,642</u>
<b>Cash and cash equivalents, end of year</b>	<u>3,200,245</u>	<u>2,550,296</u>

- The notes on pages 7 to 22 are an integral part of these financial statements.

## REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF

Financial statements for the year ended December 31, 2011

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### NOTES TO THE FINANCIAL STATEMENTS

(All amounts are in US Dollar)

#### NOTE (1) GENERAL

Reef Finance Company ("Reef" or "the Company") is a Palestinian private not for profit company registered on July 2, 2007 in Gaza under registration number of (563143734) with an authorized capital of USD 200,000 as of December 31, 2011 (2010 USD 200,000).

Reef provides diversified financial services directed towards micro and small businesses, especially in rural areas.

The Company's parent, The Palestinian Agriculture Relief Committees, (hereinafter "PARC"), signed an agreement on August 30, 2007 with the Netherlands Representative Office to the Palestinian Authority in the amount of USD 2,747,385 to establish Reef Finance Company.

#### NOTE (2) BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set below. These policies have been consistently applied to all years presented, unless otherwise stated.

##### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention.

##### Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

##### Changes in accounting policies and disclosures

###### (a) New and amended standards adopted by the entity

- There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would have had a material impact on Reef.

###### (b) New standards, amendments and interpretations issued but not effective and applicable for the financial year beginning 1 January 2011 and not early adopted

- IAS 19, 'Employee benefits' was amended in June 2011.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities.

##### Foreign currency translation

###### (a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which Reef operates which is the US Dollar (USD). The financial statements are presented in USD, which is Reef's presentation currency.

###### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and other comprehensive income.



## REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF

Financial statements for the year ended December 31, 2011

### NOTES TO THE FINANCIAL STATEMENTS

(All amounts are in US Dollar)

#### Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Reef and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of income and other comprehensive income during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

	<u>Useful lives (Years)</u>
Office furniture	7
Office equipment	5
Lease hold improvements	4
Computer software	4
Control and protection system	4

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the statement of income and other comprehensive income.

#### Cash and cash equivalents

Cash and cash equivalent includes cash at bank, cash on hands and short-term deposits with an original maturity of three months or less.

#### Net assets

Net assets of Reef and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets whose use by Reef is not subject to donor-imposed restrictions and whose restrictions are met in the same reporting period.
- Temporarily or permanently restricted net assets - Net assets whose use by Reef is limited by donor-imposed stipulations that limits the use of the donation. When donor restriction expires, temporarily restricted contributions are reclassified to unrestricted net assets and reported in the statement of income and other comprehensive income as contributions released from restrictions.

#### Revenue recognition

##### a) Donations revenue

Unrestricted contributions and/or donations are recognized in the statement of income and other comprehensive income when received.

Restricted contributions and/or donations are recognized when received and/or when the related project expenditures exceeded the received amount. The excess of the project expenditures over the received amount is recognized as contribution receivables.

##### b) Interest revenues

Interest income from loans is recognized using the effective interest method.

##### c) Commission revenues

Commissions are recognized as revenues when the related service is delivered.

#### Expense recognition

Expense are recognized when incurred based on the accrual basis of accounting

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**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, variables taken into consideration 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.

Reef established general and specific allowances for doubtful loans based on past collection experience and other factors that may affect collectability:

Loans are written off in case the procedures taken for collecting the loans are ineffective. Any subsequent collections in respect of such loans that have been written off are included within the statement of income and other comprehensive income.

**Long term loans**

Long term loans are recognized initially at fair value, net of transaction costs incurred. Long term loans are subsequently carried at amortized cost.

**Payables 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 services 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.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (3) RISK MANAGEMENT**

Reef activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. Reef's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Reef's financial performance.

Risk management is carried out by finance department under policies approved by the board of directors. Finance department identifies and evaluates financial risks in close co operation with the Reef's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

**Market risk:**

**A. Currency risk**

Currency risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. However, Reef mitigates this risk by maintaining all its financial instruments in USD and signing all its agreements (loans or others) in USD, while any other liabilities or assets in other currencies is justified and has a unique condition like grant or loan. Reef keeps the minimum balance of NIS for petty cash and daily expenses.

The main currencies that Reef uses are the United States Dollars (USD), the New Israeli Shekel (ILS) and Jordanian Dinar (JD) as well as the Euro. Fluctuations in the exchange rates in the year resulted in a loss of USD 3,920 (2010 gain of USD 47,405).

**B. Cash flow and fair value interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Reef takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate re-pricing and value at risk that may be undertaken, which is monitored by the credit committee.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of Reef's statement of comprehensive income:

<u>Currency (2011)</u>	<u>Increase in interest rate</u>	<u>Sensitivity of net interest income</u>
	<u>%</u>	<u>USD</u>
USD	0.25	11,708
USD	0.5	23,416
<u>Currency (2011)</u>	<u>Decrease in interest rate</u>	<u>Sensitivity of net interest income</u>
	<u>%</u>	<u>USD</u>
USD	0.25	(11,708)
USD	0.5	(23,416)
<u>Currency (2010)</u>	<u>Increase in interest rate</u>	<u>Sensitivity of net interest income</u>
	<u>%</u>	<u>USD</u>
USD	0.25	8,315
USD	0.5	16,629
<u>Currency (2010)</u>	<u>Decrease in interest rate</u>	<u>Sensitivity of net interest income</u>
	<u>%</u>	<u>USD</u>
USD	0.25	(8,315)
USD	0.5	(16,629)

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2011

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**Credit risk**

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The risk is divided into the following sections:

Item	Carrying amount 2011	Carrying amount 2010
Cash and cash equivalents	3,200,245	2,550,296
Contributions receivable	-	2,542
Loans receivable	3,919,389	2,832,232
Deposit with Palestinian Monetary Authority	30,439	30,439

Cash and cash equivalents are placed in local banks operating in Palestine. These financial institutions do not have credit ratings.

Information on the credit quality of loans is set out in notes 4 and 7 below.

**Liquidity risk:**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The schedule below presents expected cash outflow resulting from financial liabilities broken down by time brackets:

Items	Interest rate %	Expected timing of cash outflow/inflows (Months)				
		Carrying amounts	0-6	6-12	12-24	More than 24
<b>Outflows:</b>						
Payables and accruals		25,258	25,258			
<b>Long-term loans as follows:</b>						
Banca Etica Loan	4	51,564	25,782	25,782	-	-
Deep Loan	2	67,665	45,110	22,555	-	-
Etimos Loan	2	51,708	-	-	-	51,708
Triple Jump	5	228,750	114,375		114,375	-
DEEP 2	2	300,000	33,336	66,666	133,332	66,666
DEEP-Alqard Al-Hassan	free	500,000	-	-	55,560	444,440
DEEP_Al-Quds	free	500,000	-	-	166,670	333,330
DEEP-Mosharakah	free	66,666	22,222	22,222	22,222	-
<b>Total loans payable</b>		<b>1,766,353</b>	<b>240,825</b>	<b>137,225</b>	<b>492,159</b>	<b>896,144</b>
<b>Grand total</b>		<b>1,791,611</b>	<b>266,083</b>	<b>137,225</b>	<b>492,159</b>	<b>896,144</b>
<b>Inflows:</b>						
Cash and cash equivalents		3,200,245	475,288	245,117	879,113	1,600,727

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

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**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (4) CRITICAL ESTIMATES AND JUDGMENTS**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**A. Interest income**

Reef uses the flat rate to calculate interest income on the loan portfolio. The interest rate varies based on management estimate and judgment about the borrower risk and credit rating. This process is handled by the Company's credit committee. Because of the large number of loans and short repayment periods, Reef management considers that recognition of income approximates the use of the effective interest rate method on an individual loan basis.

Reef collects the interest either in advance or as a part of the repayments. Reef collected interest in advance for the major part of the loan portfolio (more than 65%). The collection as part of repayments constitutes the remaining balance.

**B. Provision against loans receivable**

Reef estimates the requirements for provisions against overdue installments as below:

Specific allowance: Specific allowance is calculated as percentage of the loan outstanding balance, based on the amounts past due in each aging category, the following rates are used to calculate the specific provision during 2011:

<u>Loan status</u>	<u>Allowance (Percent) %</u>
15-30 days overdue	5
31-60 days overdue	15
61-90 days overdue	25
91-180 days overdue	50
More than 180 days overdue	100

General allowance: General allowance is calculated as percentage of 0.5% of the total loan portfolio at the year end.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (5) PROPERTY AND EQUIPMENT**

Details 2011:

	<u>Office furniture</u>	<u>Office equipment</u>	<u>Lease hold improvements</u>	<u>Computer Software</u>	<u>Control and protection system</u>	<u>Total</u>
<b>Cost</b>						
Balance January 1, 2011	27,980	58,261	4,077	17,517	-	107,835
Additions	5,372	13,425	5,252	3,600	4,490	32,139
Disposals	-	-	-	-	-	-
<b>Balance December 31, 2011</b>	<b>33,352</b>	<b>71,686</b>	<b>9,329</b>	<b>21,117</b>	<b>4,490</b>	<b>139,974</b>
<b>Accumulated depreciation</b>						
Balance January 1, 2011	8,211	28,277	1,256	12,235	-	49,979
Additions	4,446	13,133	1,628	3,781	509	23,497
Disposals	-	-	-	-	-	-
Balance December 31, 2011	12,657	41,410	2,884	16,016	509	73,476
<b>Net book value December 31, 2011</b>	<b>20,695</b>	<b>30,276</b>	<b>6,445</b>	<b>5,101</b>	<b>3,981</b>	<b>66,498</b>

Details 2010:

	<u>Office furniture</u>	<u>Office equipment</u>	<u>Lease hold improvements</u>	<u>Computer Software</u>	<u>Total</u>
<b>Cost</b>					
Balance January 1, 2010	19,012	47,715	1,465	15,378	83,570
Additions	8,968	10,546	2,612	2,139	24,265
Disposals	-	-	-	-	-
<b>Balance December 31, 2010</b>	<b>27,980</b>	<b>58,261</b>	<b>4,077</b>	<b>17,517</b>	<b>107,835</b>
<b>Accumulated depreciation</b>					
Balance January 1, 2010	4,788	18,154	780	7,514	31,236
Additions	3,423	10,123	476	4,721	18,743
Disposals	-	-	-	-	-
Balance December 31, 2010	8,211	28,277	1,256	12,235	49,979
<b>Net book value December 31, 2010</b>	<b>19,769</b>	<b>29,984</b>	<b>2,821</b>	<b>5,282</b>	<b>57,856</b>

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (6) LOANS RECEIVABLE**

Following are the loans by category:

	<u>2011</u>	<u>2010</u>
Individual loans	4,849,193	3,241,959
Group loans	216,963	269,570
<b>Total portfolio</b>	<b>5,066,156</b>	<b>3,511,529</b>
Less: allowance for doubtful loans	383,018	185,638
	<u><b>4,683,138</b></u>	<u><b>3,325,891</b></u>

Loans are classified as follow:

	<u>2011</u>	<u>2010</u>
Matures during next one year	1,196,702	849,879
Matures over one year	3,486,436	2,476,012
	<u><b>4,683,138</b></u>	<u><b>3,325,891</b></u>

**Past due and impaired assets**

The following provides details of past due assets that are impaired and the related provisions as of December 31, 2011:

Item	Carrying amount	Aging (Days)				
		15-30	31-60	61-90	91-180	More than 180
Loans receivable	1,146,767	501,052	161,939	103,785	144,526	235,465
Allowance for doubtful loans	383,018	25,053	24,291	25,946	72,263	235,465

In order to face this risk Reef follows up with the borrowers in order to collect all amounts due. In addition Reef calls the guarantors to collect the overdue loans. If these procedures do not work Reef files claims in the court against the loan holder.

Following is the movement on the allowance for doubtful loans:

	<u>2011</u>	<u>2010</u>
Beginning balance	185,638	53,734
Additions during the year	197,380	131,904
<b>Ending balance</b>	<b>383,018</b>	<b>185,638</b>

Following is the distribution of loans for the year 2011 by geographic area:

	<u>Outstanding Balance</u>	<u>Allowance for doubtful loans</u>	<u>Net realized value</u>
Ramallah and North of the West Bank	810,558	(142,339)	668,219
South of the West Bank	1,424,514	(95,594)	1,328,920
Nablus	1,966,211	(136,842)	1,829,369
Gaza	864,873	(8,243)	856,630
	<u><b>5,066,156</b></u>	<u><b>(383,018)</b></u>	<u><b>4,683,138</b></u>

Following is the distribution of loans for the year 2010 by geographic area:

	<u>Outstanding Balance</u>	<u>Allowance for doubtful loans</u>	<u>Net realized value</u>
Ramallah and North of the West Bank	1,983,723	(98,096)	1,885,627
South of the West Bank	1,179,646	(64,628)	1,115,018
Gaza	348,160	(22,914)	325,246
	<u><b>3,511,529</b></u>	<u><b>(185,638)</b></u>	<u><b>3,325,891</b></u>

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (6) LOANS RECEIVABLE (CONTINUED)**

Following is the movement on the loans balance during 2011:

	<u>Beginning balance</u>	<u>Issued loans</u>	<u>Repayments</u>	<u>Ending balance</u>
Individual loans	3,241,959	4,477,650	(2,870,416)	4,849,193
Group loans	269,570	95,000	(147,607)	216,963
<b>Total</b>	<u><b>3,511,529</b></u>	<u><b>4,572,650</b></u>	<u><b>(3,018,023)</b></u>	<u><b>5,066,156</b></u>

Following is the movement on the loans balance during 2010:

	<u>Beginning balance</u>	<u>Issued loans</u>	<u>Repayments</u>	<u>Ending balance</u>
Individual loans	2,336,948	3,471,446	(2,566,435)	3,241,959
Group loans	568,315	226,364	(525,109)	269,570
<b>Total</b>	<u><b>2,905,263</b></u>	<u><b>3,697,810</b></u>	<u><b>(3,091,544)</b></u>	<u><b>3,511,529</b></u>



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (6) LOANS RECEIVABLE (CONTINUED)**

Following are the loans by sector/ category:

Loan sector/category	1-2 months		3-4 months		5-8 months		9-12 months		13-18 months		18-24 months		25-36 months		37-over		Total
	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	Amount	Average interest rate	
Agriculture	232,989	8.05	106,387	8.40	268,601	9.24	443,403	8.16	461,216	8.99	1,202,467	7.51	1,319,380	6.17	54,678	3.3	4,089,121
Structures and real state	-	-	980	10.05	-	-	3,784	7.00	2,077	8.56	5,602	7.00	101,321	7.00	335,440	7.0	449,204
Trading	6,412	8.95	19,400	9.90	42,882	9.57	58,798	10.84	74,381	11.03	161,825	9.54	70,169	9.54	-	-	433,776
Industry and mining	-	-	250	11.00	-	-	2,439	10.00	4,200	7.00	23,580	7.00	15,000	7.50	-	-	45,469
Consuming and personal	225	4.78	1,577	10.60	500	11.00	1,790	11.00	-	-	22,732	6.00	-	-	-	-	26,824
Public services	435	10.24	533	11.00	1,227	9.25	4,180	10.33	6,127	9.75	4,260	8.00	5,000	11.00	-	-	21,762
	<u>240,061</u>		<u>129,127</u>		<u>313,210</u>		<u>514,303</u>		<u>548,001</u>		<u>1,420,466</u>		<u>1,510,870</u>		<u>390,118</u>		<u>5,066,156</u>

**NOTE (7) DEPOSIT WITH PALESTINIAN MONETARY AUTHORITY**

During the year 2009, Reef has entered into a Memorandum of Understanding (MoU) with Palestine Monetary Authority (PMA). As per this MoU, Reef has deposited an amount of US Dollar 30,000 with the PMA. Pursuant to this MoU, Reef will have access to benefits from services provided by PMA. On the other hand, Reef is obligated to comply with the PMA rules and regulations in respect of reporting and lending procedures. The amount deposited is accruing interest income subject to the international interest rates at 0.3% per annum.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (8) CONTRIBUTIONS RECEIVABLE AND TEMPORARILY RESTRICTED CONTRIBUTIONS**

Details 2011:

	Balance beginning of the year			Released from restriction	Currency variance	Balance ending of the year	
	Temporarily restricted contributions	Contribution receivable	Cash received			Temporarily restricted contributions	Contribution receivable
Palestinian Agricultural Relief Committee (PARC) – Donated equity*	800,000	-	-	-	-	800,000	-
European Commission (EC)	332,662	-	-	(282,594)	(12,984)	37,084	-
Spanish Agency for International Development Cooperation (AECID)	137,561	-	-	(137,561)	-	-	-
Institution strengthening Reef Finance Co.- Netherland	481,205	-	1,397,269	(1,530,976)	-	347,498	-
Declining Musharakeh - UNDP	100,000	-	-	-	-	100,000	-
UNDP - Deep Al Qard Al Hassan	-	-	85,000	(28,800)	-	56,200	-
UNDP – Deep	-	(2,542)	4,000	(1,458)	-	-	-
	<b>1,851,428</b>	<b>(2,542)</b>	<b>1,486,269</b>	<b>(1,981,389)</b>	<b>(12,984)</b>	<b>1,340,782</b>	<b>-</b>

\*During year 2009, Reef received a total amount of US Dollar 800,000. This amount has been donated by the Government of the Netherlands through PARC - Parent.

As per the donor's stipulations, the amount has been disbursed as loans. Further, the donor has stipulated that this amount should be classified as donated equity on the statement of financial position. However, as of December 31, 2011, the amount was still not registered with the company's controller registrar; accordingly the amount is classified as a temporarily restricted contribution.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (8) CONTRIBUTIONS RECEIVABLE AND TEMPORARILY RESTRICTED CONTRIBUTIONS (CONTINUED)**

Details 2010:

	Balance beginning of the year			Released from restriction	Currency variance	Balance ending of the year	
	Temporarily restricted contributions	Contribution receivable	Cash received			Temporarily restricted contributions	Contribution receivable
Palestinian Agricultural Relief Committee (PARC)	-	(234,728)	234,728	-	-	-	-
Palestinian Agricultural Relief Committee (PARC) – Donated equity	800,000	-	-	-	-	800,000	-
European Commission (EC)	-	-	675,000	(315,360)	(26,978)	332,662	-
Spanish Agency for International Development Cooperation (AECID)	252,252	-	-	(99,238)	(15,453)	137,561	-
Institution strengthening Reef Finance Co.- Netherland	-	-	1,349,939	(868,734)	-	481,205	-
Declining Musharakeh - UNDP	-	-	100,000	-	-	100,000	-
UNDP - Deep	8,000	-	8,000	(18,542)	-	-	(2,542)
	<u>1,060,252</u>	<u>(234,728)</u>	<u>2,367,667</u>	<u>(1,301,874)</u>	<u>(42,431)</u>	<u>1,851,428</u>	<u>(2,542)</u>

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**

Financial statements for the year ended December 31, 2011

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (9) OTHER CURRENT ASSETS**

Details:

	<u>2011</u>	<u>2010</u>
Due from employees	32,509	18,307
Interest receivable on granted loans	20,439	7,719
Prepaid expenses	19,306	8,842
	<u>72,254</u>	<u>34,868</u>

**NOTE (10) CASH AND CASH EQUIVALENTS**

Details:

	<u>2011</u>	<u>2010</u>
Cash on hand	40,730	3,239
Cash at banks	2,641,245	1,868,872
Term deposits at banks (*)	518,270	678,185
	<u>3,200,245</u>	<u>2,550,296</u>

(\*) these represent short term deposits that mature within one month of placement and bear interest in the range of 0.5%-2% per annum.

**NOTE (11) SHARE CAPITAL**

As of January 1, 2010 the total share capital (authorized and fully paid) amounted to US Dollar 100,000 shares of 1 U.S. Dollar par value each

At the annual general meeting held on December 30, 2009, the shareholders approved the issuance of additional 100,000 shares of 1 US Dollar par value each. These additional shares have been registered with the company's controller registrar during 2010. As of December 31, 2010, Shareholders have settled an amount of USD 85,500 of the additional shares. An additional amount USD 10,000 was settled by the shareholders during the year 2011.

**NOTE (12) SUBORDINATE LOAN**

Based on the signed agreement between Palestinian Agricultural Relief Committee (PARC) and Reef, as of September 10, 2007, and later discussions, PARC agreed to transfer USD 1,500,000 for Reef, to be used for granting loans. During the years 2008 and 2009, Reef received from PARC the total agreement amount of USD 1,500,000. The amount was disbursed as loans during 2008 and 2009.

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 preserves its right to the loan, in case Reef was liquidated or operations were closed before December 31, 2012.

**NOTE (13) LONG TERM LOAN**

Details:

	<u>2011</u>	<u>2010</u>
Matures over one year and less than five years	1,388,303	440,982
Matures during next one year	378,050	292,077
	<u>1,766,353</u>	<u>733,059</u>

*Movement of long term loans as follow:*

	<u>Beginning balance</u>	<u>Borrowing</u>	<u>Repayments</u>	<u>Ending balance</u>
long term loans	733,059	1,308,395	(275,101)	1,766,353

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (14) PROVISION FOR EMPLOYEES' INDEMNITY**

Details.

	Beginning Balance	Additions during the year	Payments during the year	Ending balances
Employees' end of service benefits	59,802	30,934	(6,243)	84,493
Provident fund	86,148	45,667	(11,908)	119,907
	<u>145,950</u>	<u>76,601</u>	<u>(18,151)</u>	<u>204,400</u>

**NOTE (15) CASH MARGINS**

This amount represents the balance of cash margins deposited by creditors' collateral for the granted loans. These cash margins are deposited in local banks and are renewed on a monthly basis.

**NOTE (16) DEFERRED INTEREST REVENUE**

Details:

	2011	2010
Deferred interest revenue - individual loans	346,604	286,593
Deferred interest revenue - group loans	805	3,485
	<u>347,409</u>	<u>290,078</u>

**NOTE (17) PAYABLES AND ACCRUALS**

Details:

	2011	2010
Accounts payable	8,691	14,252
Interest payable	8,022	4,635
Accrued expenses	5,904	14,253
Refundable fees	4,849	-
Payroll tax payable	3,696	881
	<u>31,162</u>	<u>34,021</u>

**NOTE (18) INTEREST AND COMMISSION**

Details:

	2011		2010	
	Interest	Commissions	Interest	Commissions
Individual loans	424,575	49,411	338,480	34,752
Group loans	24,221	975	23,449	600
	<u>448,796</u>	<u>50,386</u>	<u>361,929</u>	<u>35,352</u>

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (19) GENERAL AND ADMINISTRATIVE EXPENSES**

Details:

	<u>2011</u>	<u>2010</u>
Salaries and related benefits (*)	512,779	384,673
Advertisement	42,418	27,413
Rent	41,647	36,654
Utilities	32,774	21,028
Research fees	29,871	2,944
Professional fees	29,717	12,221
Work shop expense	23,400	4,781
Transportation	21,731	19,611
Maintenances	21,252	23,228
Stationary and office supplies	11,725	6,326
Public relation expenses	11,186	-
Bank commissions and charges	14,417	7,412
Subscription	10,615	5,523
Travel expense	10,469	703
Other	9,217	4,992
Training fees	7,603	20,186
Hospitality	7,297	5,177
Fuel expenses	4,926	2,547
Entertainments	1,900	-
General insurance	1,781	811
	<u>846,725</u>	<u>586,230</u>

(\*) Details of salaries and related benefits are as follows:

	<u>2011</u>	<u>2010</u>
Salaries and related allowances	439,519	327,599
End of service expense	30,934	27,438
Provident fund expense	30,444	21,512
Employees health insurance	9,675	8,124
Rewards expense	2,207	-
	<u>512,779</u>	<u>384,673</u>

**REEF FINANCE COMPANY (NOT FOR PROFIT)-REEF**  
 Financial statements for the year ended December 31, 2011

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts are in US Dollar)

**NOTE (20) INCOME TAX**

As stated in note (1) to the financial statements, Reef is registered as a private not for profit company in Gaza. According to the Income Tax Law No. 17 of the year 2004 as amended article (7), Income of not for profit entities arising from business or investment works, and any other activities of a nature that may impact the competitive competence of private sector, is subject to income tax. Hence, management at Reef consider donations received as non-taxable.

Reef has generated a net loss from its taxable business activities as follows:

	<u>2011</u>	<u>2010</u>
<b>Income</b>		
Interest and commission	499,182	397,281
Other revenues	15,051	5,026
	<u>514,233</u>	<u>402,307</u>
<b>Expenses</b>		
General and administrative expenses (excluding the change in provision for employees' indemnity and provision for doubtful loans but including finance expenses) exclude the depreciation expense	773,858	510,953
Depreciation	23,498	18,743
	<u>797,356</u>	<u>529,696</u>
<b>Net loss from business activities</b>	<b>(283,123)</b>	<b>(127,389)</b>
Beginning of the year balance	(808,007)	(680,618)
<b>Cumulative losses</b>	<b>(1,091,130)</b>	<b>(808,007)</b>

As per the above, Reef has recognized a net loss from business activities and accordingly not subject to income tax for the year 2011.

**NOTE (21) RELATED PARTIES**

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

	<u>Relation</u>	<u>2011</u>	<u>2010</u>
Key management personnel compensation	Key management	57,028	49,785
End of service benefits	Key management	4,115	3,942