

Reef Finance Company
Limited liability (Non profit)
Ramallah - Palestine

Independent auditor's report and financial statements
for the year ended December 31, 2014

Palestine Auditing & Accounting Co.
“Independent Member Firm of (PrimeGlobal)”
“Certified Accountants & Consultants”

Reef Finance Company
Limited liability (Non profit)
Ramallah - Palestine

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Independent Auditor's Report

**To M/S Shareholders of Reef Finance Company
Limited liability (Non profit)**

Report on the financial Statements

We have audited the accompanying financial statements of Reef Finance Company, which comprise of the statement of the financial position as of December 31, 2014, statement of income and comprehensive income, statement of changes in owner's equity & statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Managements 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.

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 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 auditor 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 used 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 over all presentation of the financial statements.

Certified Accountants & Consultants

محاسبون قانونيون ومستشارون

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 statement present fairly, in all material respect the financial position of Reef Finance Company as of December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Yousef Mohammad Hammodeh



License NO. 103/98

Ramallah on Feb 1, 2015



Reef Finance Company
Limited liability (Non profit)
Ramallah - Palestine
Statement of Financial Position as of December 31, 2014 **Exhibit "A"**
"All amounts in USD"

<u>Assets</u>	<u>Note</u>	<u>2014</u>	<u>2013</u>
<u>Non-Current assets</u>			
Property and equipment, net	(5)	<u>60,908</u>	<u>64,926</u>
Total non-current assets		<u>60,908</u>	<u>64,926</u>
<u>Current assets</u>			
Murabaha, net	(6)	8,228,207	8,175,758
Deposit with Palestinian Monetary Authority	(7)	20,000	30,439
Contributions receivables	(8)	-----	44,426
Other current assets	(9)	155,313	129,338
Cash and cash equivalents	(10)	<u>1,044,077</u>	<u>1,000,885</u>
Total current assets		<u>9,447,597</u>	<u>9,380,846</u>
Total assets		<u>9,508,505</u>	<u>9,445,772</u>
<u>Owners Equity and liabilities</u>			
<u>Owners Equity</u>			
Share capital	(11)	1,700,000	1,700,000
Risk reserve	(12)	79,536	-----
Retained earnings – Note (C)		4,227,778	4,182,877
Temporarily restricted contributions	(8)	<u>937,504</u>	<u>880,000</u>
Total Owners equity		<u>6,944,818</u>	<u>6,762,877</u>
<u>Liabilities</u>			
<u>Non-current liabilities</u>			
Long-term loans	(13)	1,158,451	1,226,388
Provision for employees' indemnity	(14)	<u>323,139</u>	<u>332,218</u>
Total current liabilities		<u>1,481,590</u>	<u>1,558,606</u>
<u>Current liabilities</u>			
Short-term loan	(13)	984,422	1,039,450
Cash margins	(15)	1,150	4,251
Payables and accruals	(16)	<u>96,525</u>	<u>80,588</u>
Total current liabilities		<u>1,082,097</u>	<u>1,124,289</u>
Total liabilities		<u>2,563,687</u>	<u>2,682,895</u>
Total Liabilities and owners equity		<u>9,508,505</u>	<u>9,445,772</u>

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

Chairman

General Manager

Reef Finance Company
Limited liability (Non profit)
Ramallah - Palestine
Statement of income & comprehensive income
for the year ended December 31, 2014 **Exhibit (B)**
“All amounts in “USD”

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<u>Revenues</u>			
Temporarily restricted contributions released from restriction	(8)	25,454	223,886
Financing income	(17)	1,104,312	1,027,635
Commission revenues		484	805
Other revenues		<u>76,836</u>	<u>49,051</u>
Total revenues		<u>1,207,086</u>	<u>1,301,377</u>
<u>Expenses</u>			
Finance expenses	(18)	146,703	103,005
General & administrative expenses	(19)	836,287	834,012
General & administrative expenses covered by donors (project) expenses	(19)	-----	168,917
Allowance for doubtful loans		74,032	26,448
Depreciation expense		<u>25,627</u>	<u>22,836</u>
Total expenses		<u>1,082,649</u>	<u>1,155,218</u>
Profit for the year before comprehensive income		<u>124,437</u>	<u>146,159</u>
Comprehensive income		<u>-----</u>	<u>-----</u>
Profit for the year after comprehensive income		<u>124,437</u>	<u>146,159</u>

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

Chairman

General Manager

Reef Finance Company
Limited liability (Non profit)
Ramallah - Palestine
Statement of changes in owners equity
for the year ended December 31, 2014
“All amounts in “USD”

Exhibit (C)

	<u>Share capital</u>	<u>Risk reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of 1/1/2014	1,700,000	-----	4,182,877	5,882,877
Transferring to risk reserve	-----	79,536	(79,536)	-----
Net profit for the year – Exhibit B	-----	-----	<u>124,437</u>	<u>124,437</u>
Balance as of 31/12/2014	<u>1,700,000</u>	<u>79,536</u>	<u>4,227,778</u>	<u>6,007,314</u>
Balance as of 1/1/2013	200,000	-----	4,036,718	4,236,718
Capital increasing	1,500,000	-----	-----	1,500,000
Net profit for the year – Exhibit B	-----	-----	<u>146,159</u>	<u>146,159</u>
Balance as of 31/12/2013	<u>1,700,000</u>	-----	<u>4,182,877</u>	<u>5,882,877</u>

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

Chairman

General Manager

Reef Finance Company
Limited liability (Non profit)
Ramallah - Palestine
Cash flows statement for the year
ended December 31, 2014
“All amounts in “USD”

Exhibit (D)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<u>Cash flows from Operating activities</u>			
Net profit for the year – Exhibit (B)		124,437	146,159
<u>Adjustments to reconcile net profit to net cash flows</u>			
<u>Non cash items</u>			
Depreciation		25,627	22,836
Provision for doubtful & Murabaha		68,821	26,448
Provision for employees indemnity		124,804	113,678
<u>Changes in operating assets & liabilities:</u>			
(Increase) in Murabaha receivables		(121,270)	(1,685,006)
Decrease in deposit with Palestinian Monetary Authority		10,439	-----
Decrease in contributions receivable		44,426	322,431
(Increase) in Other current assets		(25,975)	(51,333)
(Decrease) in Cash margin		(3,101)	(9,564)
Increase in Payables and accruals		15,937	30,991
Payments of employees' indemnity		(133,883)	(25,108)
Net cash flows provided by (used in) operating activities		<u>130,262</u>	<u>(1,108,468)</u>
<u>Cash flows from investing activities</u>			
(Purchase) of property and equipment		(21,609)	(35,864)
Net cash flows (used in) investing activities		<u>(21,609)</u>	<u>(35,864)</u>
<u>Cash flows from financing activities</u>			
Capital increasing		-----	1,500,000
Capital loan		-----	(1,500,000)
(decrease) increase in Loans		(122,965)	1,046,386
Increase (decrease) in Temporarily restricted contributions		57,504	(179,460)
Net cash flows provided from (used in) financing activities		<u>(65,461)</u>	<u>866,926</u>
Net increase (decrease) in cash and cash equivalents		43,192	(277,406)
Cash and cash equivalents beginning of the year		<u>1,000,885</u>	<u>1,278,291</u>
Cash and cash equivalents ending of the year	(10)	<u>1,044,077</u>	<u>1,000,885</u>

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

Chairman

General Manager

Reef Finance Company
Not for Profit Private Shareholding Co.
Ramallah – Palestine
Notes to the Financial Statements
“All amounts in “USD”

1. General:

- Reef Finance Company ("Reef" or "the company") is a Palestinian limited liability not for profit company registered on July 2, 2007 in Gaza under registration number (563143734) with an authorized capital of USD 1,700,000 of December 31, 2014 (2012 USD200,000).
- Reef provides diversified financial services directed towards micro and small businesses, especially in rural areas.
- The company's parent, Palestinian Agriculture Relief Committees, (hereinafter "PARC"), signed an agreement on August 30, 2007 with NRO for USD 2,747,385 to establish Reef Finance Company.
- The company employees 35 as of 31/12/2014.
- The financial statements approved by management on April 12, 2015.

2. Significant accounting policies:

The accounting policies followed to prepare the current financial statements as follows.

A. Basis of preparation:

- The financial statements have been prepared according to International Financial Reporting Standards issued by IASB & according to historical cost principle.
- The accounts are maintained in USD.

B. Changes in accounting policies:

The accounting policies used in the preparation of the financial statements of the Company are consistent with those used for the preparation of the financial statements as of December 31, 2013.

Standards & interpretations are not yet become applicable.

- IFRS No (9) Financial Instruments become applicable on Jan 1, 2018.
- IFRS No (14) Regularity Deferred Accounts become applicable on January1, 2016.
- IFRS (15) Customers Contracts Revenues become applicable on January 1, 2017.
- Amendment of IFRS (11) Joint Arrangements become applicable on January 1, 2016.
- Amendment of IFRS (16&38) clarification of the methods of Depreciation & Amortization accepted becomes applicable on Jan 1, 2016.
- Amendment of IFRS (27) the Equity Method in Separate Financial Statement which will become applicable on Jan 1, 2016.

3. 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 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 recognized in the statement of income and other comprehensive income.

c. Property and equipment:

Property and equipment is stated at historical cost less accumulated 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 recognized 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 reliable. The carrying amount of the replaced part is derecognized. 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 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 lift (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.

As asst's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount.

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

d. Cash and cash equivalents:

Cash and cash equivalents include cash at bank, cash on hand and short-term deposits maturing of three months or less.

e. 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 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.

f. Revenue recognition:

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 under financing income.

Financing income:

- Financing income from loans is recognized using the effective interest method over the financing period.
- Murabaha profits collected from borrowers on the date of transaction are recognized immediately in the statement of income and other comprehensive income.

Commission revenues:

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

g. Expense recognition:

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

h. Loans receivables:

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

i. 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.

j. 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.

k. Provisions for employees' indemnity and provident fund:

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

l. 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 programmed 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 the finance department under policies approved by the board of directors. The finance department identifies and evaluates financial risks in close co-operation with 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.

m. Market risk:

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 are justified and have a unique condition like grants or loans. Reef keeps the minimum balance of NIS for petty cash and daily expenses.

The main currencies that reef uses are United States Dollars (USD) New Israeli shekel (NIS) and Jordanian Dinar (JD) as well as (Euro).

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.

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 judgments 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.

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 based on PMA Instructions No (2) 2014:

<u>Loan status</u>	<u>Allowance (percent %)</u>
30-60 days overdue	25
61-90 days overdue	50
91-180 days overdue	75
More than 180 days overdue	100

5. **Plant & equipment:**

This item consists of:

	2014					
	<u>Office furniture</u>	<u>Office equipment</u>	<u>lease hold improvements</u>	<u>Computer software</u>	<u>Control and protection systems</u>	<u>Total</u>
<u>Cost:</u>						
Balance as at 1/1/2014	40,615	100,585	10,307	28,327	6,577	186,411
Additions	<u>12,658</u>	<u>4,871</u>	<u>711</u>	<u>1,185</u>	<u>2,184</u>	<u>21,609</u>
Balance as at 31/12/2014	<u>53,273</u>	<u>105,456</u>	<u>11,018</u>	<u>29,512</u>	<u>8,761</u>	<u>208,020</u>
<u>Accumulated depreciation</u>						
Balance as at 1/1/2014	23,628	66,759	7,709	20,835	2,554	121,485
Additions	<u>7,411</u>	<u>11,726</u>	<u>1,598</u>	<u>3,385</u>	<u>1,507</u>	<u>25,627</u>
Balance as at 31/12/2014	<u>31,039</u>	<u>78,485</u>	<u>9,307</u>	<u>24,220</u>	<u>4,061</u>	<u>147,112</u>
Net book value as at 31/12/2014	<u>22,234</u>	<u>26,971</u>	<u>1,711</u>	<u>5,292</u>	<u>4,700</u>	<u>60,908</u>
	2013					
	<u>Office furniture</u>	<u>Office equipment</u>	<u>lease hold improvements</u>	<u>Computer software</u>	<u>Control and protection systems</u>	<u>Total</u>
<u>Cost:</u>						
Balance as at 1/1/2013	36,276	76,124	10,059	23,598	4,490	150,547
Additions	<u>4,339</u>	<u>24,461</u>	<u>248</u>	<u>4,729</u>	<u>2,087</u>	<u>35,864</u>
Balance as at 31/12/2013	<u>40,615</u>	<u>100,585</u>	<u>10,307</u>	<u>28,327</u>	<u>6,577</u>	<u>186,411</u>
<u>Accumulated depreciation</u>						
Balance as at 1/1/2013	17,849	55,895	5,401	18,094	1,410	98,649
Additions	<u>5,779</u>	<u>10,864</u>	<u>2,308</u>	<u>2,741</u>	<u>1,144</u>	<u>22,836</u>
Balance as at 31/12/2013	<u>23,628</u>	<u>66,759</u>	<u>7,709</u>	<u>20,835</u>	<u>2,554</u>	<u>121,485</u>
Net book value as at 31/12/2013	<u>16,987</u>	<u>33,826</u>	<u>2,598</u>	<u>7,492</u>	<u>4,023</u>	<u>64,926</u>

6. Murabaha, net:

This item consists of the following:

	<u>2014</u>	<u>2013</u>
Individual Murabaha	8,544,198	8,444,291
Group Murabaha	<u>154,561</u>	<u>133,198</u>
Total	8,698,759	8,577,489
Less: allowance for doubtful Murabaha	<u>(470,552)</u>	<u>(401,731)</u>
Murabaha, Net	<u>8,228,207</u>	<u>8,175,758</u>

- Murabaha are classified according to date maturity as follows:

	<u>2014</u>	<u>2013</u>
Matures during next year	4,571,829	4,129,999
Matures over one year	<u>4,126,930</u>	<u>4,447,490</u>
Total	<u>8,698,759</u>	<u>8,577,489</u>

- The following provides details of past due assets that are impaired and the related provisions as of December 31, 2014:

<u>Item</u>	<u>Carrying amount</u>	<u>Aging (Days)</u>				<u>Total</u>
		<u>31-60</u>	<u>61-90</u>	<u>91-180</u>	<u>More than 180</u>	
Murabaha	70,124	193,272	112,099	199,543	170,179	745,217
Allowance for doubtful Murabaha	46,348	48,318	56,050	149,657	170,179	470,552

On 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 amounts. 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 Murabaha:

	<u>2014</u>	<u>2013</u>
Beginning balance	401,731	375,283
Additions during the year	74,032	26,448
Written off loans	<u>(5,211)</u>	-----
Ending balance	<u>470,552</u>	<u>401,731</u>

- Following is the distribution of Murabaha by geographic area:

	<u>2014</u>		
	<u>Outstanding Balance</u>	<u>Allowance for doubtful Murabaha</u>	<u>Net realized value</u>
Ramallah and North of West Bank	1,168,337	(212,067)	956,270
South of West Bank	2,373,402	(127,655)	2,245,747
Nablus	2,273,860	(70,327)	2,203,533
Gaza strip	<u>2,883,160</u>	<u>(60,503)</u>	<u>2,822,657</u>
Total	<u>8,698,759</u>	<u>(470,552)</u>	<u>8,228,207</u>

	<u>2013</u>		
	<u>Outstanding Balance</u>	<u>Allowance for doubtful Murabaha</u>	<u>Net realized value</u>
Ramallah and North of West Bank	1,197,196	(150,957)	1,046,239
South of West Bank	2,521,535	(135,473)	2,386,062
Nablus	2,047,536	(79,941)	1,967,595
Gaza strip	<u>2,811,222</u>	<u>(35,360)</u>	<u>2,775,862</u>
Total	<u>8,577,489</u>	<u>(401,731)</u>	<u>8,175,758</u>

- Following is the movement on Murabaha balance:

	2014			
	<u>Beginning</u>			<u>Ending</u>
	<u>balance</u>	<u>Issued</u>	<u>Repayments</u>	<u>balance</u>
Individual Murabaha	8,444,291	4,584,407	(4,484,500)	8,544,198
Group Murabaha	<u>133,198</u>	<u>60,000</u>	<u>(38,637)</u>	<u>154,561</u>
Total	<u>8,577,489</u>	<u>4,644,407</u>	<u>(4,523,137)</u>	<u>8,698,759</u>

	2013			
	<u>Beginning</u>			<u>Ending</u>
	<u>balance</u>	<u>Issued</u>	<u>Repayments</u>	<u>balance</u>
Individual	6,717,488	5,819,432	(4,092,629)	8,444,291
Group	<u>174,995</u>	-----	<u>(41,797)</u>	<u>133,198</u>
Total	<u>6,892,483</u>	<u>5,819,432</u>	<u>(4,134,426)</u>	<u>8,577,489</u>

- Following is the distribution of Murabaha according to sectors:

<u>Item</u>	<u>2014</u>	<u>2013</u>
Construction & real estate	1,907,728	2,010,182
Trading	1,743,738	1,486,770
Industry & mining	150,446	115,231
Agriculture	4,432,909	4,683,273
Public services	99,724	87,955
Consumer & personal	<u>364,214</u>	<u>194,078</u>
Total	<u>8,698,759</u>	<u>8,577,489</u>

7. Deposit with Palestinian Monetary Authority:

During the year 2009, Reef has entered into a memorandum of understanding (MoU) with Palestine Monetary Authority (PMA). The amount was reduced to USD 20,000 according to the letter received from PMA No. D.4 – 11195\09\2014 on September 17, 2014. As per this MoU, 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 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.

8. Contributions receivable and temporarily restricted contributions:

A. This item consists of the following:

	<u>Balance beginning of the year</u>	<u>During the year</u>		<u>Balance ending of the year</u>	
	<u>Temporarily restricted contributions</u>	<u>Contribution receivables</u>	<u>Cash received</u>	<u>Released from restriction</u>	<u>Temporarily restricted contributions</u>
Palestinian Agricultural Relief Committee (PARC) – B	800,000	-----	-----	-----	800,000
Intitutation Strengthening Reef Finance Co – Netherland	-----	(44,426)	127,384	(15,454)	67,504
Declining Musharakeh	<u>80,000</u>	-----	-----	<u>(10,000)</u>	<u>70,000</u>
Total	<u>880,000</u>	<u>(44,426)</u>	<u>127,384</u>	<u>(25,454)</u>	<u>937,507</u>

B. During year 2009, Reef received a total amount of US Dollar 800,000. Government of Netherlands through PARC – Parent, has donated this amount. 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 in the statement of financial position. However, as of December 31, 2014, accordingly, the amount is classified as a temporarily restricted contribution.

9. Other current assets:

This item consists of:

<u>Item</u>	<u>2014</u>	<u>2013</u>
Due from employees	14,940	40,482
Interest receivable on granted Murabaha	113,509	81,822
Prepaid expenses	11,410	7,034
Other receivables (Establish a company)	<u>15,454</u>	<u>-----</u>
Total	<u>155,313</u>	<u>129,338</u>

10. Cash and cash equivalents:

This item consists of:

	<u>2014</u>	<u>2013</u>
Cash on hand	21,693	7,158
Cash at banks	666,922	943,727
Term deposits at banks	<u>355,462</u>	<u>50,000</u>
Total	<u>1,044,077</u>	<u>1,000,885</u>

This item represents short term deposits that mature from six months to one year & bear interest in the range of 0.5% - 3% per annum.

11. Share capital:

As of January 1, 2012, share capital amounted to USD 200,000 during 2013 an amount of \$1,500,000 was settled to become \$ 1,700,000 as of December 31, 2014 & 2013 respectively.

12. Risk Reserve:

This amount represents USD 79,536 as of December 31, 2014 a percentage 1% from the total amount of the regular outstanding loans according to PMA Instructions No. 2/2014. This reserve cannot reduce without prior written consent from PMA.

13. Loans:

A. This item consists of the following:

<u>Transferring unit</u>	<u>Balance as at 1/1/2014</u>	<u>Additions during the year</u>	<u>Repaid</u>	<u>Balance as at 31/12/2014</u>	<u>Short term loans</u>	<u>Long term loans</u>	<u>Interest rate</u>
Deep - 2	66,666	-----	(66,666)	-----	-----	-----	-----
Deep – Jerusalem	333,330	-----	(111,110)	222,220	222,220	-----	-----
Hasan loan - Deep	222,220	-----	(166,665)	55,555	55,555	-----	-----
Etimos	55,176	-----	(55,176)	-----	-----	-----	-----
Quds Bank	376,680	-----	(94,676)	282,004	100,515	181,489	6%
Bank of Palestine - 1	500,000	-----	(94,250)	405,750	91,992	313,758	6.5%
Palestine Commercial Bank	461,766	-----	(159,243)	302,523	168,933	133,590	6%
Bank of Palestine – 2	-----	300,000	(26,579)	273,421	70,047	203,374	5.5%
Deep - IFAD	-----	226,400	-----	226,400	25,160	201,240	-----
Sanad	<u>250,000</u>	<u>250,000</u>	<u>(125,000)</u>	<u>375,000</u>	<u>250,000</u>	<u>125,000</u>	6.35%
Total	<u>2,265,838</u>	<u>776,400</u>	<u>(899,365)</u>	<u>2,142,873</u>	<u>984,422</u>	<u>1,158,451</u>	

B. These loans represents loans granted for the company from international corporations & local banks for financing microfinance institutions in Palestine.

14. Provision for employees, indemnity:

This item consists of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
End of service benefit	154,779	63,904	(45,092)	173,591
Provident fund	<u>177,439</u>	<u>60,900</u>	<u>(88,791)</u>	<u>149,548</u>
Total	<u>332,218</u>	<u>124,804</u>	<u>(133,883)</u>	<u>323,139</u>

15. Cash margins:

This amount 1,150 represents the balance of cash margins deposited by borrowers' collateral for the granted facilities. These cash margins are deposited in local banks and are reviewed on a monthly basis.

16. Payables and accruals:

This item consists of:

	<u>2014</u>	<u>2013</u>
Interest payable	-----	22,768
Accrued expenses	11,709	48,549
Accounts payable	34,970	2,425
Payroll tax payable	2,324	6,846
Suspend profits & commissions	<u>47,522</u>	-----
Total	<u>96,525</u>	<u>80,588</u>

17. Financing income:

This item consists of:

	<u>2014</u>	<u>2013</u>
Financing income	<u>1,104,312</u>	<u>1,027,635</u>
Total	<u>1,104,312</u>	<u>1,027,635</u>

18. Financing expenses:

This item consists of:

	<u>2014</u>	<u>2013</u>
Currency variances	(3,809)	11,313
Loans interest	114,214	36,017
Bank's charges	<u>36,298</u>	<u>55,675</u>
Total	<u>146,703</u>	<u>103,005</u>

19. General and administrative expenses:

a. This item consists of:

	<u>2014</u>		<u>2013</u>		
	<u>Administrative</u>	<u>Total</u>	<u>Administrative</u>	<u>Projects</u>	<u>Total</u>
Salaries and related benefits	553,131	553,131	592,880	-----	592,880
Advertisement	2,206	2,206	3,775	28,674	32,449
Rent	52,639	52,639	49,534	-----	49,534
Utilities	32,740	32,740	30,218	-----	30,218
Research fees	260	260	82	634	716
Professional fees	64,858	64,858	28,053	104,231	132,284
Transportation	32,857	32,857	29,744	-----	29,744
Maintenances	19,418	19,418	21,724	-----	21,724
Stationary and office supplies	9,604	9,604	14,832	-----	14,832
Subscription	17,337	17,337	29,055	6,242	35,297
Travel expense	4,083	4,083	-----	5,755	5,755
Other	32,242	32,242	20,632	-----	20,632
Training	2,721	2,721	-----	23,381	23,381
Hospitality	8,275	8,275	8,704	-----	8,704
Fuel expenses	-----	-----	2,306	-----	2,306
Entertainments	2,186	2,186	-----	-----	-----
Insurances	<u>1,730</u>	<u>1,730</u>	<u>2,473</u>	-----	<u>2,473</u>
Total	<u>836,287</u>	<u>836,287</u>	<u>834,012</u>	<u>168,917</u>	<u>1,002,929</u>

b. **Details of salaries and related benefits are as follows:**

	<u>2014</u>	<u>2013</u>
Salaries	456,046	470,469
End of service expense	40,924	52,361
Provident fund expense	40,566	41,878
Employees health insurance	11,026	16,202
Rewards expense	<u>4,569</u>	<u>11,970</u>
Total	<u>553,131</u>	<u>592,880</u>

20. Maturity of assets & liabilities:

This item consists of:

	<u>On demand</u>	<u>Less than one month</u>	<u>From 1 month to 3 months</u>	<u>From 3 months to 6 months</u>	<u>From 6 months to one year</u>	<u>More than one year</u>	<u>Without maturity</u>	<u>Total</u>
Plant & equipment, net	-----	-----	-----	-----	-----	-----	60,908	60,908
Murabaha, net	-----	395,085	1,208,092	1,140,856	2,129,119	2,791,443	563,612	8,228,207
Deposit within Palestinian Monetary authority	-----	-----	-----	-----	-----	-----	20,000	20,000
Other current assets	-----	3,440	10,322	7,832	20,210	113,509	-----	155,313
Cash & cash equivalents	<u>688,615</u>	-----	-----	-----	<u>355,462</u>	-----	-----	<u>1,044,077</u>
Total	<u>688,615</u>	<u>398,525</u>	<u>1,218,414</u>	<u>1,148,688</u>	<u>2,504,791</u>	<u>2,904,952</u>	<u>644,520</u>	<u>9,508,505</u>
 <u>Liabilities & owners equity</u>								
<u>Liabilities</u>								
Loans	-----	299,813	174,168	278,439	368,333	513,426	508,694	2,142,873
Other liabilities	-----	<u>17,536</u>	<u>2,324</u>	<u>11,657</u>	<u>18,637</u>	<u>47,521</u>	<u>323,139</u>	<u>420,814</u>
Total liabilities	-----	<u>317,349</u>	<u>176,492</u>	<u>290,096</u>	<u>386,970</u>	<u>560,947</u>	<u>831,833</u>	<u>2,563,687</u>
<u>Owners equity</u>								
Total liabilities & owners equity	-----	<u>317,349</u>	<u>176,492</u>	<u>290,096</u>	<u>386,970</u>	<u>560,947</u>	<u>7,776,651</u>	<u>9,508,505</u>
Gap	<u>688,615</u>	<u>81,176</u>	<u>1,041,922</u>	<u>858,592</u>	<u>2,117,821</u>	<u>2,344,005</u>	<u>(7,132,131)</u>	-----

21. Interest rate sensitivity:

This item consists of:

	<u>Less than one month</u>	<u>From 1 month to 3 months</u>	<u>From 3 months to 6 months</u>	<u>From 6 months to one year</u>	<u>More than one year</u>	<u>Without maturity</u>	<u>Total</u>
Plant & equipment, net	-----	-----	-----	-----	-----	60,908	60,908
Murabaha, net	395,085	1,208,092	1,140,856	2,129,119	3,355,055	-----	8,228,207
Deposit within Palestinian Monetary Authority	-----	-----	-----	20,000	-----	-----	20,000
Other current assets	-----	-----	-----	-----	-----	155,313	155,313
Cash & cash equivalents	-----	-----	-----	355,462	-----	688,615	1,044,077
Total	<u>395,085</u>	<u>1,208,092</u>	<u>1,140,856</u>	<u>2,504,581</u>	<u>3,355,055</u>	<u>904,836</u>	<u>9,508,505</u>
 <u>Liabilities & owners equity</u>							
<u>Liabilities</u>							
Loans	299,813	174,168	278,439	368,333	1,022,120	-----	2,142,873
Other liabilities	-----	-----	-----	-----	-----	420,814	420,814
Total liabilities	<u>299,813</u>	<u>174,168</u>	<u>278,439</u>	<u>368,333</u>	<u>1,022,120</u>	<u>420,814</u>	<u>2,563,687</u>
Owners equity	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>6,944,818</u>	<u>6,944,818</u>
Total liabilities & owners equity	<u>299,813</u>	<u>174,168</u>	<u>278,439</u>	<u>368,333</u>	<u>1,022,120</u>	<u>7,365,632</u>	<u>9,508,505</u>
Gap	<u>95,272</u>	<u>1,033,924</u>	<u>862,417</u>	<u>2,136,248</u>	<u>2,332,935</u>	<u>(6,460,796)</u>	<u>-----</u>

22. 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>2014</u>	<u>2013</u>
Key management personnel compensation	73,906	66,549
End of service benefits	4,244	4,244

23. Taxes:

As stated in Note (1) to the financial statements Reef is registered as a limited not for profit company according to Companies law for the year, 1929 in Gaza.

According to Income Tax law No. 8 of 2010, as amended, and valid till end of 2010 and Income Tax Law No. 8 of 2011 Article (7) of (19) as follows:

"Exemption from tax imposed under the law the following:

Income of Charities and Non-profit companies, Trade Unions and Professional Associations, Cooperative Societies and Zakat Committees and Charitable Funds Licensed impact that:

- A. Income from a non-profit operation.
- B. Income is not arising from business or investment nature affect the competitiveness of the private sector.
- C. Providing a copy of the financial statements annually certified by certified auditor.

Accordingly the company has not calculated the income tax provision to meet the obligations that may arise on the company.

24. Comparative figures:

Certain comparative figures have been reclassified to comply with current financial statements presentation, these classifications do not affect the prior years gains or owners equity.