

ACAD Finance Annual Report

April 15

2014

The following is a summary report of activities of ACAD Finance submitted to the Shareholders by ACAD Finance Board of Directors.

Executive Summary

In June 2014, a national government was born and an overall policy to work on implementing the national agenda was agreed upon, but unfortunately no serious reconciliation occurred and the situation remains stagnant.

The Israeli aggression launched on Gaza in July ended with a massive destruction of various neighborhoods of the Gaza Strip, the total number of victims reached 2,147, including 530 children, 302 women, around 100,000 individuals still seek shelter in the ruins

The rate of settlement construction increased sharply approximately 40 % in area C, which is totally under Israeli control, the number of the Israeli settlers (375 000) exceeded the number of the Palestinian population living there, (300 000).

On November 29, 2012, the United Nations General Assembly voted to accord Palestine the status of Non-Member State observer, in response Israel considering further punitive action, so the Israelis frozen a planned monthly payment of 500 million shekels(\$127 million, 106 million Euros) in tax revenues to the Palestinian Authority.

The PMA data shows a decline in real growth, which fell to -7.4 percent in Q3 of 2014, compared to the corresponding quarter of 2013. In the West Bank, growth has relatively decelerated to 1.5 % on annual basis. As for the Gaza Strip, the economic consequences of the last Israeli attack on Gaza were quite stark. Real growth has contracted to -31.9%.

This performance has affected unemployment rates, which reached in Gaza Strip 47.4 % in comparison to 44.5% in Q2 of 2014 WB rose to 19.0% compared to 16.1% in 2014Q2.

The banking sector's performance reflected the sudden developments in the Palestinian economy. Thus, growth of bank assets/liabilities slowed down to 8.3 percent in Q3 of 2014 compared to the same period of 2013, following the slowdown in growth of the credit facilities portfolio to 10.1 percent compared to 15.5 percent in Q2

On 31 August 2014, The Palestine Monetary Authority gave its final approval on licensing ACAD Finance as a specialized lending company and ratified its Board of Directors members.

On 2 November 2014, The Ministry of National Economy issued the final amended registration certificate for ACAD Finance with a capital of \$5.35 million

Since the beginning of 2014, ACAD has been the first organization that transformed from a non-governmental organization to a specialized, regulated finance company. This transformation has



been achieved despite the fact that neither ACAD staff nor the Palestine Monetary Authority and the legal experts had the adequate experience required in this field.

After the entry of international shareholders, the shareholders general assembly held its first meeting in the presence of all shareholders and the legal advisor on 19 May 2014. During this

meeting, a board of directors of five members was elected ACAD Finance's new Board of Directors (after the entry of international



shareholders) held four meetings during the period 20 May and 31 December 2014 .Mr. Adnan Faramand was elected as chairman of the Board of Directors and Mr. Dominique Lesaffre as deputy chairman.

A management Committee, consisting of (CEO, C.F. O. and COO), was formed, during the period 20 May 2014 until the end of the year, the Committee has held 23 meetings with written minutes for each meeting. The Operations Department worked on the development of the existing products and confined them to six key groups: women loans, microfinance loans, small loans, consumption loans, entrepreneurs' loans and cooperatives loans.

In total, ACAD Finance granted 1332 loans in 2014 with a total amount of \$4.477 million



By the end of the year, the lending portfolio amounted to \$5.593 million with an increase of 17.3% in comparison with 2013. The active loans amounted to 2747 loans with an increase of 5.7% compared to 2013. The disbursed amounts increased by 4.4% in comparison with 2013 while the disbursed loans dropped by 11.3% in comparison with 2013.

Due to the transformation process and circumstances, such as the attack on Gaza ACAD Finance could not achieve the objectives set in the plan and it only disbursed 54.2% of the loans identified by the plan and 69% of the funds were only disbursed. Meanwhile, the portfolio only achieved 82.6% and the active loans 69.1% of what was anticipated. Financial statements of 2014 revealed that the net losses of ACAD Finance amounted to \$413,796 for that year versus \$458,969 as planned in 2014 budget, i.e. the losses were 10% less than it has been expected. Some deviations occurred on the income list for reasons related to the deviation in the lending operations plan, as mentioned above

A significant element of the transformation of ACAD NGO to ACAD Finance was the Technical Assistance Project sponsored by our investor EIB. The contracted T.A provider, Frankfurt School of Management (FSM) officially launched the project during the inception mission in March 2014. New staff at different levels was appointed in the head office; most of them have financial and banking experience in the private sector. In the Operations Department, a credit officer was hired to oversee the Islamic loans and audit loans of more than \$3,000 in addition to his work as secretary for the Central Credit Committee in the head office. At the branch-level, (4) new

lending officers were hired while the services of two lending officers were terminated for reasons related to performance while some others resigned for personal reasons.

In 2014, ACAD old and new staff received intensive training. During that year, more than 26 training days were organized in microfinance, Islamic finance and other subjects in which 56

Staff members participated. Staff members from the Head office: Financial Manager and senior accountant participated in on line six-month training course on risks management with Frankfurt School.

With the establishment of ACAD Finance, the head office and branches have been supplied with computer networks and photocopying machines and were linked with the internet, and every lending officer was provided with a computer. Adequate furniture has been also provided for all the branches and desks for all the employees, meanwhile, all the branches have been refurbished to meet the PMA conditions regarding security, safety and clients' service.

ACAD Finance signed two finance agreements each of one million USD with zero interest paid in three installments and the loan duration is (4) years including (1)year grace period to finance enterprises using the Islamic lending method. After negotiations started in 2013, ACAD Finance obtained a loan guarantee letter directed to five local banks in Palestine on condition that EPCGF guarantees 60% of the granted loan. ACAD Finance communicated with a number of local banks to obtain a loan without collaterals from EPCGF.



Many of these banks expressed their readiness to enter in negotiations if ACAD Finance decided to do that .the Executive Manager of Banka Itika in Italy expressed his readiness to study ACAD

Finance funding request for 2015, provided that funding takes place indirectly through SIDI for legal considerations. ACAD Finance held meetings with the German SANAD, which expressed its willingness to finance ACAD with loans. Both parties have agreed to continue meetings in 2015 in the light of ACAD Finance financial needs.