

ACAD Finance Annual Report

April 18

2015

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

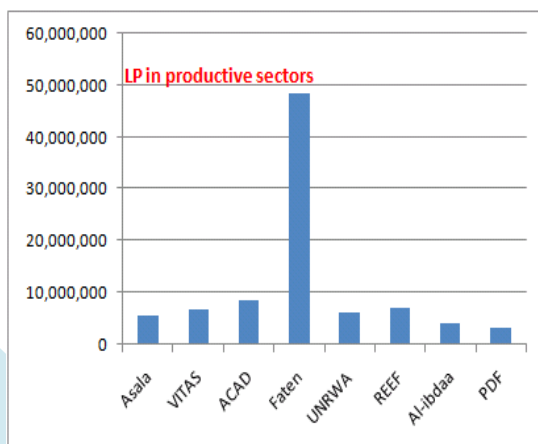
Executive Summary

The continued aggression by settlers, the continued settlement activity, the restrictions by the Israeli authorities in the West Bank and Gaza, and the stalled economic growth and worsening economic crisis in the Palestinian territories have all led to an atmosphere of frustration and a lack of hope among the Palestinians. In fact, a recent poll found that 78% of Palestinians think their chances of getting a state in the next five years are “slim to non-existent”. Given the lack of positive change in these areas, the current tensions and escalation are likely to continue

“**Reduced donor** aid, war, suspension of revenue payments and ongoing restrictions by the Government of Israel has had a severe impact on the Palestinian economy”. The World Bank reported to the Ad Hoc liaison committee (a forum of donors to the Palestinian Authority) in September 2015.

Real GDP per capita has been shrinking since 2013 due to the weak economy in the Palestinian territories. Unemployment remains high, particularly amongst Gaza’s youth where it exceeds 60 percent, and 25 percent of Palestinians currently live in poverty (16% in WB, 39% in Gaza), figures indicate that 80% of Gaza population is currently aid dependent.

The microfinance sector witnessed a significant development in 2015, the portfolio increased by 36%, rose from \$111 million to \$151 million. In 2015, ACAD achieved a growth in the loan portfolio, which amounted to 72%. ACAD share increased from 5% to 6% of the total portfolio of the sector. ACAD contribution is distinguished because it forms 10% of the total loan portfolio allocated for the productive sectors after excluding housing and consumer loans. In this context, ACAD ranks the second behind FATEN. In term of percentage of LP allocated to the productive sectors, ACAD ranked as a top with 90%.As



regards gender, the average percentage of women in the total portfolio of the financing sector amounted to 38%, ACAD is ranking the second behind ASALA for Credit and Development (56%).

ACAD Finance Board of Directors held five meetings in 2015, including a two-day meeting in August. All the Board member participated in these five meetings. Since the third meeting which was held in June 2015, the representative of the European Investment Bank, Firas Al-Najab, has joined the Board membership.

After Firas Al-Najab had joined the Board membership, the Board re-formed its committees. It integrated the Assets & liabilities Committee and the Risks Committee in one committee in addition to the audit committee, the both Committees held two meetings each and submitted their recommendations to the board

Throughout 2015, the management committee held 23 meetings in which it discussed different issues .The committee decided to expand the base of participants in its meetings according to its agenda. Thus, employees representing the departments of Operations, Social Performance, Risks and Finance participated in its meetings.

Year of 2015 was a year of expansion at all level,61 geographical locations were added to ACAD services (from 224 to 285),10 new field officers were hired and trained, the LP growth reached 72%, disbursement amount 79%,disbursed loans by 95% and active loans by 33% By the end of 2015, ACADF loan portfolio reached \$9,592,731 USD, with 89.5% for production purpose and 10.5% for consumption.57% of the LP is for micro loans and women cycling loans meanwhile the Islamic LP contribute up to 22.5% of total LP Regarding the borrowers 57% of total active borrowers are women,, 13% are living in Refugee

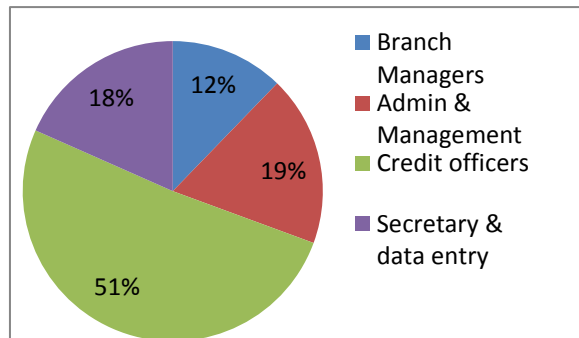


camps, 55% in urban area and 32% in rural area Year 2015 witnessed a good improvement in main indicators in LP quality and efficiency, the most important achievement was decreasing LP at risk from 8% to 4%

in despite of the bad LP in Gaza due to the political circumstances

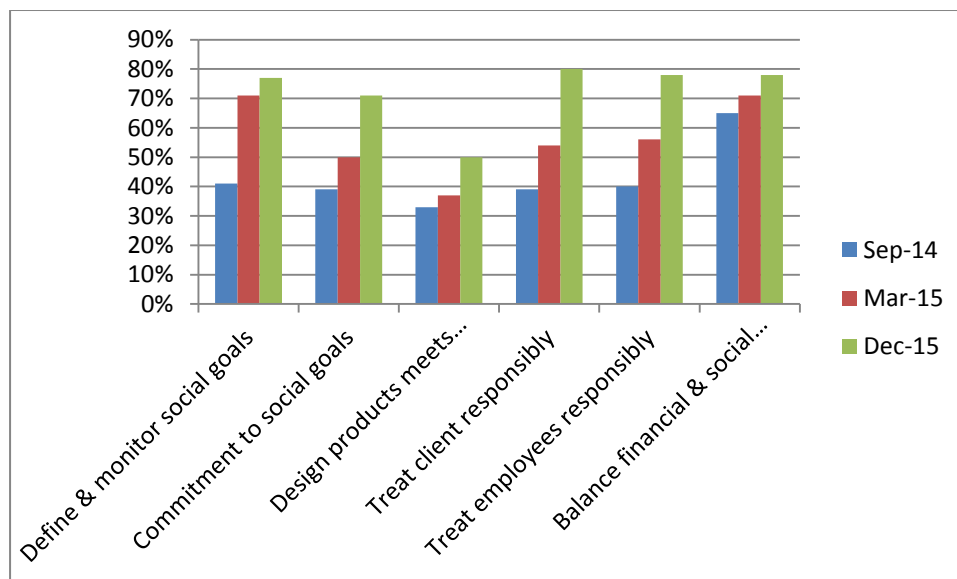
The positive development for ACAD Finance in 2015 is its ability to overcome the break-even point in the second year of its operations as the net profits amounted to more than \$45 thousand compared to a loss of \$450 thousand. Also in comparison with the revised budget that assumed a loss of \$ 22 thousand.

By the end of 2015, the total staff at ACADF payroll was 49 and 5 staff are working for ACADF in Gaza within ACAD NGO payroll in 2015.



53 ACADF's staff attended training courses locally and in Jordan in field of feasibly studies, SMEs, Islamic lending and social performance management

ACAD has integrated social aspects in its daily operations, in the HR manual, in the risk manual, and in the Audit manual. A social action plan was conducted by the Technical Assistant, and she trained two employees on the action plan and how to monitor achieving it. ACAD Finance has assigned the Social Management duties to a SPM Officer. The BOD has assigned a BOD member; Mr. Jurgen Hammer; for the overall supervising and monitoring of ACAD Social Performance.



In the 2015 Annual Internal Audit Plan was prepared, the audit and review was done for Ramallah Branch and Jericho Office, Bethlehem Branch, Nablus Branch and Tubas Office, Credit Operations Department and certain aspects in Hebron Branch. Each quarter, the Internal Audit Report was issued to the Board Audit Committee after revision and discussion with management.

ACADF management was able since June to submit to the risk committee 2 quarterly credit operation reports which were very useful in analyzing the high risk at branch, credit officer, product and gender level, this analysis lead ACADF's management to adopt a several procedures resulted in improvement of LP quality at the end of the year

ACAD Finance maintained its activities in the Palestinian Network for Small and Microfinance and participated in setting up its policies. It also maintained its membership in Sanabel participated in its 2015 conference. With the guidance of the Board of Directors, ACAD Executive Chairman participated in the European Annual Microfinance held in November in Luxemburg. During this



Conference, a special session was held on ACAD's experience in implementing the social performance management. ACAD Finance participated in the European Microfinance Award 2015. Although ACADF has not won the prize, its project received acceptance and was one of the first ten projects.

Based on the board's guideline and recommendation ACADF's management have worked to diversify the financial resources either locally or internationally and by sector, the financing plan for 2015 was totally achieved, 4\$M of commercial and soft loans were received