

ACAD
Finance
Annual
Report

2016

Report of activities of ACAD Finance submitted to the Shareholders in
27/4/2017 by Board of Directors.

Executive Summary

Palestine has gone through a complex political context, which is affected by the Israeli restrictions made on different aspects such as land ownership, illegal settlements, and the killing of Palestinians during the “outburst” that started in late 2015 and continued over to 2016.

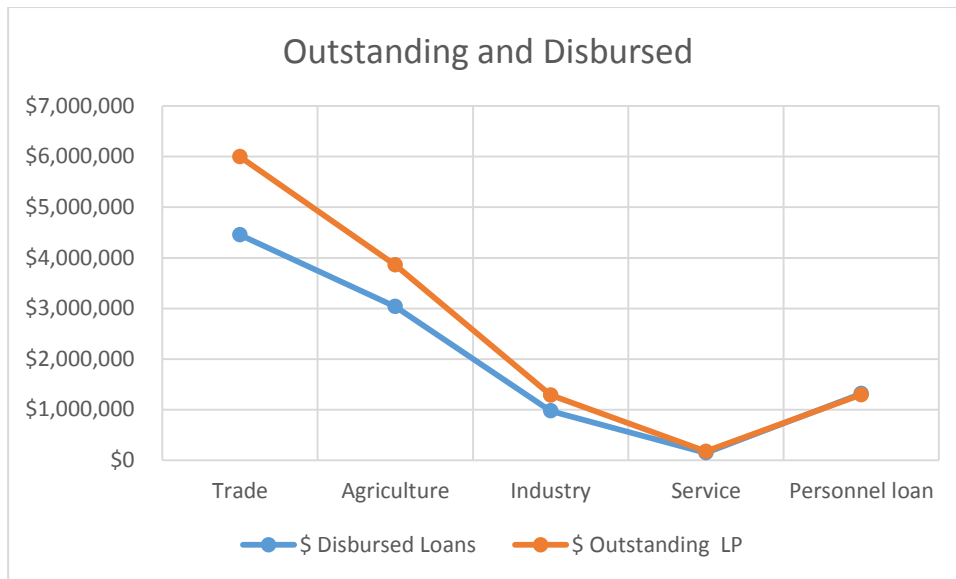
The yet-unattained reconciliation process between Fatah and Hamas, and the negative responses also affect the political context by the Israeli side on the international efforts exerted towards the peace process.

Surely, the political context highly effected the economic situation in Palestine, which has unfortunately been through a recession in 2014 and is still recovering from it.

High unemployment rates, declined availability of donors’ support, and lack of vital potentials for private investment are some of the main considerations that, to a certain extent, control our economy.

Yet, given the political and economic context that Palestine has been through, the micro-finance sector kept a high growth rate in 2016. The outstanding LP reached 42% growth rate; that amounts to more than \$223 million, with 87 thousand active loans. Of all the related institutions in the field, Fatten was in the leading position with ownership of over 50% of the market share.

As for ACADF market share, the mentioned company maintained the same level of that of 2015, which reached 6%.



In general, the KPIs for ACADF were not only met, but they exceeded those of the sector's average

	ACA DF	Sect or
Active loans in productive sector	82%	47%
Active LP in productive sector	90%	55%
Women client	52%	38%
LP in Agriculture	31%	12%

To maintain the success of ACADF, five meetings were held during 2016 to the Board of Directors, one of which took place in Amsterdam over two-days of meetings. The remaining four meetings took place in Ramallah. All the members of the Board of Directors attended all meetings.

Three committees were build/ restructured according to the recommendations of the PMA. These committees are the assets liabilities committee, the risk committee, and the internal audit committee.

The risk committee and the internal audit committee held 3 meetings each over 2016, in which different topics were tackled.

As for the management committee, 28 meetings were held in 2016. Issues related to daily development, implementation of previous decisions, credit work, and periodic reports were discussed in the mentioned meetings.

On the social management aspect, which ACADF pays great attention to, a new product in local currency was designed to be ready for operation in 2017 according to the recommendation of the board of directors. In addition, two new products have been designed and approved by the board to be in operation in 2017.

The success of ACADF also included the addition of available services of the company in 22 geographical locations, which leads to 307 geographical locations overall. Besides, the loan portfolio reached US\$ 12,614,136; with 89% for production purposes and 11% for consumption purposes. 26% of the LP was directed towards micro loans and 20% was directed towards women cycling loans. 22% of total LP were contributed from the Islamic LP.

Regarding the borrowers, over half of the total active borrowers are women, 9% are living in refugee camps, 54% in urban area, and 35% in rural area.

ACADF's total revenues in 2016 witnessed a remarkable growth in comparison to 2015. The increase was by an amount of \$478 thousand at 34%.

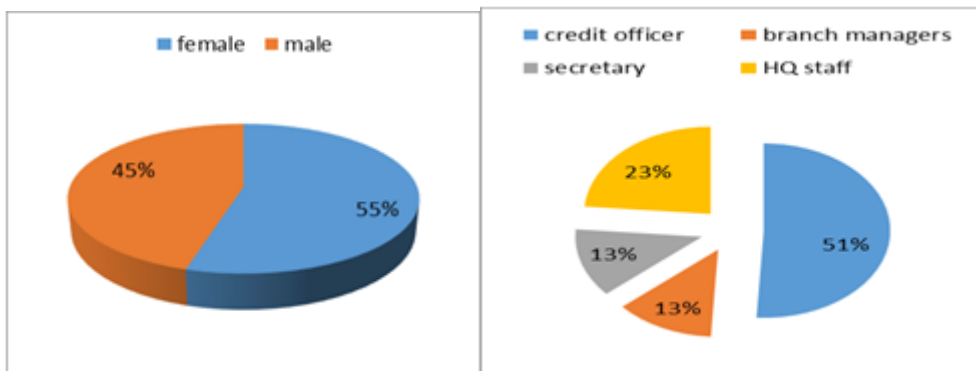
Both local institutions and international lenders contributed to increase ACADF's debt balance to reach \$3.36 million. The cost of finance ranged between 2.5% to 5.5% by the end of 2016. By the end of the year, debt/equity ratio reached 177%. ACADF managed to obtain PMA's approval to have 200% for this ratio.

The total operating costs grew by about 17% from \$1.22 M in 2015 to \$1.44 M in 2016. This percentage of growth reflects the increase in the portfolios in 2016. In comparison to the 2016 budget, the operating expenses in 2016 dropped by \$28K (2%).

The treasury activities made a new source of revenue that amounted to \$27K. This increased the revenues and was evident in the escalation in the net profit from \$45K during 2015 to \$ 114 K during 2016.

In 2016, the total assets of ACAD Finance witnessed a considerable growth compared to 2015 as the assets increased by \$ 4.1 M (38%). This growth is mainly due to the growth in the lending portfolio, which rose from \$9.3 M to \$12.6 million.

ACADF welcomed new staff in 2016 as well, the administrative and financial department assigned an accountant in order to prepare and finalize the bank reconciliations, also the company have created a new position in the operation department (credit control officer), and five new employees joined ACADF team in the branches. The staff turnover in 2016 reached 9.71% in total, with 0 % among male employees and 17.8 % among female employees. By the end of 2016, 55 employees formed the total number of staff at ACADF, among them five are working for ACADF in Gaza within ACAD NGO payroll.



To insure the development of ACADF's employees, trainings and workshops were held, which were attended by 12 credit officers, the human resource officer, the administrative and finance manager, credit control system officer, all the secretaries, the communication and credit registry officer and the internal auditor.

Two training courses on social performance management, client protection principles and the COE have been done during 2016 for the new hired staff. The operational department designed new loan products that meet clients' needs, such as providing loans in local currency NIS. The SPM officer designed two surveys on client satisfaction survey and client exit survey. The surveys are planned to be distributed, filled, and collected in 2017.

ACADF has issued a complaints form that matches the criteria of the PMA's. Regarding the responsibility of the management towards their employees, the employees filled in a satisfaction survey and the results have been studied and analyzed.

In addition, the management held an annual meeting for all the employees with the head of the board of directors and two of its members.



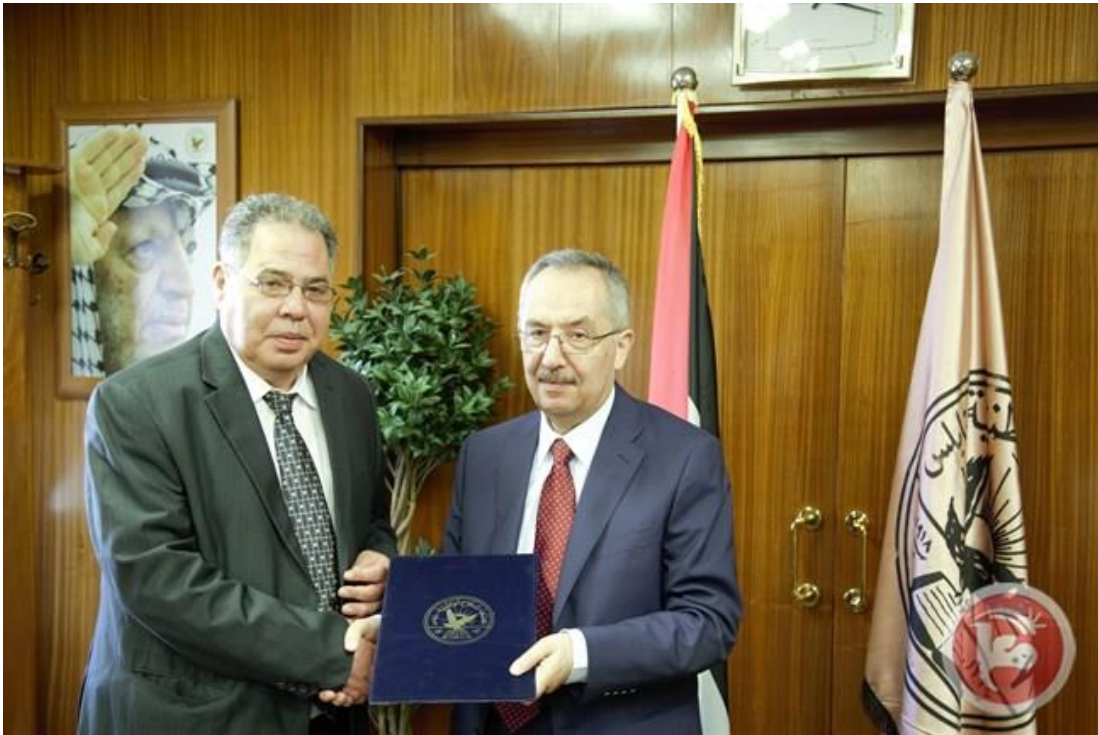
The first staff evaluation have been made that includes social performance indicators.

On the financial and human recourses quality control, the audit and review was done for the Financial and Human Resources Department, at Jenin and Tulkarem Branches, Ramallah Branch, Jericho Office, Bethlehem Branch, Nablus Branch, Tubas Office and Hebron Branch.

In 2016, ACAD Finance promoted its existing relations and established new ones at both the local and international levels. In 2016. ACADF became a full member of the social financing network INISE.

ACADF Company also signed a partnership agreement with al Najah University for one year. ACADF will receive a fresh graduate as trainees, conduct joint

researches, and apply jointly for funding opportunities.



ACADF's management has worked to diversify the financial resources either locally or internationally, and by sector. A new local investor was added to ACADF's financing pool which is the Palestinian investment fund (PIF) who granted ACADF 2.5 \$M loan with acceptable terms. At international level a 0.6 \$M loan was funded by Cop Med.

ACAD Social Improvement

Below are the results of the SPI4 tool, which shows ACAD SPM's improvement

