

**Jordan Micro Credit Company ( JMCC )**  
**Non Profit Company**  
**Amman \ Jordan**  
**Financial Statement and Auditor's**  
**Report for the Year Ended 31st Dec. 2004**

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البريد الإلكتروني: fasheh@index.com.jo**Ref No.HF/32/2005****Date :21/2/2005.****AUDITORS' REPORT****To the Shareholders of  
Jordan Micro Credit Company Limited Liability  
Non Profit Company  
Amman - Jordan**

We have audited the accompanying Balance Sheet of Jordan Micro Credit Company (JMCC) as at December 31<sup>st</sup>, 2004 and the related statements of Income, Changes In Owners Equity and Cash Flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Previous Year Financial Statements, which appear for Comparison, were audited by us and we issued our report about them.

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company maintains proper books of account and the accompanying Financial Statements and the Financial Information in the Board of Director's report are in agreement there with.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jordan Micro Credit Company (JMCC) as at December 31<sup>st</sup>, 2004 and the results of its Operations, Changes in Owners Equity and its Cash Flows For the year then ended, in accordance with Jordanian Law and International Accounting Standards.

Allowance for bad debts policy for the past years was as a percentage of 2% from the monthly balance of the loans and were adjusted monthly to the Profit & Loss Account. However, for this year the company calculated the loan allowance based on aging of loans according to the best practice for Micro Finance companies, which is internationally accepted and which was followed by the management of the company for this year.

We Advice the General Assembly to Approve these Financial Statements.

**HAWIT, FASHEH & CO.**  
Michel C. Fasheh  
Certificate No. "395"

(1- a)

**HAWIT, FASHEH & CO.**

Certified Public Accountants  
Established 1961

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**شركة حويط وفاشه وشركاهم**

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**Ref No.HF/201/2005**  
**Date :11/9/2005**

**AUDITOR'S REPORT**  
**CGAP Compliance**  
**To the Shareholders of**  
**Jordan Micro Credit Company Limited Liability**  
**Non Profit Company**  
**Amman – Jordan**

The terms of reference for this audit call for the auditor to express a conclusion as to whether the financial statements of the MFI comply with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions. These guidelines are voluntary norms recommended by consultative group of international donors. Thus an institution's failure to comply with these guidelines would not necessarily imply that the institution or its financial statements are in violation of any legal or other authoritative accounting or reporting standard.

We conclude that the financial statements herein with accompanying notes comply with the Disclosure Guidelines in all material respects.

**HAWIT, FASHEH & CO.**  
**Michel C. Fasheh**  
**Certificate No. "395"**



(1- b)

**Jordan Micro Credit Company ( JMCC )**  
**Non Profit Company**  
**Balance Sheet As At 31st Dec.**

<b><u>Assets</u></b>	<b><u>Notes</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
		<b><u>JD</u></b>	<b><u>JD</u></b>
<b><u>Current Assets</u></b>			
Cash on Hand & at Bank	2	1247340	311382
Employees Advances		2119	1463
Accounts Receivable		2916	8877
Prepaid Expenses	3	21518	9530
Refundable Deposits	4	6281	5411
Deferred Expenses		---	149
Net Employees Loans	5	915	3322
Net Clients Outstanding Loans	6	2702689	1824070
<b>Total Current Assets</b>		<b><u>3983778</u></b>	<b><u>2164204</u></b>
<b><u>Fixed Assets</u></b>			
Net Book Value	7	<b><u>56936</u></b>	<b><u>48599</u></b>
<b>Total Assets</b>		<b><u>4040714</u></b>	<b><u>2212803</u></b>
<b><u>Liabilities &amp; Owners Equity</u></b>			
<b><u>Current Liabilities</u></b>			
Loans	8	1202530	533197
Other Liabilities	9	662176	433698
Accrued Expenses	10	11161	4277
Reserve for co-operation fund		2451	0
Allowance For Staff Vacations		7058	6445
<b>Total Current Liabilities</b>		<b><u>1885376</u></b>	<b><u>977617</u></b>
<b><u>Owners Equity</u></b>			
Capital	1	30000	30000
Statutory Reserve	1	30000	30000
Retained Surplus		2095338	1175186
<b>Total Owners Equity</b>		<b><u>2155338</u></b>	<b><u>1235186</u></b>
<b>Total Liabilities &amp; Owners Equity</b>		<b><u>4040714</u></b>	<b><u>2212803</u></b>

**The Accompanying Notes Are An Integral Part Of These Financial Statement**

**Jordan Micro Credit Company ( JMCC )**  
**Non Profit Company**  
**Income Statement For The Year Ended 31st Dec.**

<b><u>Revenues</u></b>	<b><u>Notes</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
		<b><u>JD</u></b>	<b><u>JD</u></b>
Interest on Disbursed Loans		539341	377253
Fees & Penalties		46885	32558
<b>Total Revenues</b>		<b>586226</b>	<b>409811</b>
Administrative Expenses	11	(427234)	(327682)
<b>Operational Net Surplus</b>		<b>158992</b>	<b>82129</b>
Loan Loss Provision	12	(2174)	(2745)
Difference Of Loan Allowances		3853	4899
Receivables From Bad Debits		1030	300
Other Revenues		13523	15489
<b>Net Surplus Form Activities</b>		<b>175224</b>	<b>100072</b>
Interest Revenues from Bank Deposits		11884	6741
Interest Expense on Borrowed Loans		(15374)	(10522)
Loss From Sale of Assets		(194)	(313)
Previous years expenses		---	(10500)
<b>Net Surplus Before Grants</b>		<b>171540</b>	<b>85478</b>
Grants	13	748612	2301
<b>Net Surplus After Grants</b>		<b>920152</b>	<b>87779</b>
Retained Surplus Beginning Year		1175186	1087407
<b>Total Surplus</b>		<b>2095338</b>	<b>1175186</b>

**The Accompanying Notes Are An Integral Part Of These Financial Statement**

**Jordan Micro Credit Company ( JMCC )**  
**Non Profit Company**  
**Changes In Owners Equity For The Year Ended 31st Dec.**

	<b>Capital</b>	<b>Statutory Reserve</b>	<b>Surplus</b>	<b>Total</b>
<b><u>2004</u></b>				
Beginning of The Year	30000	30000	1175186	1235186
Net Surplus	---	---	920152	920152
<b>End of the Year</b>	<b>30000</b>	<b>30000</b>	<b>2095338</b>	<b>2155338</b>

<b><u>2003</u></b>				
Beginning of The Year	30000	30000	1087407	1147407
Net Surplus	---	---	87779	87779
<b>End of the Year</b>	<b>30000</b>	<b>30000</b>	<b>1175186</b>	<b>1235186</b>

**The Accompanying Notes Are An Integral Part Of These Financial Statement**

**Jordan Micro Credit Company ( JMCC )**  
**Non Profit Company**  
**Cash Flow Statement For The Year Ended 31st Dec.**

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b><u>JD</u></b>	<b><u>JD</u></b>
<b><u>Cash Flow From Operating Activities</u></b>		
Net Surplus	920152	87779
<b><u>Changes</u></b>		
Depreciation	19489	15392
Provision for Loans	8270	8734
Operating Profit before changing in working Capital	<b>947911</b>	<b>111905</b>
<b><u>Changes in Operating Assets</u></b>		
(Increase) Decrease Loans	(878386)	(464694)
(Increase) Decrease in other Receivables	(7404)	14984
<b><u>Changes in Operating Liabilities</u></b>		
Increase (Decrease) in Prepaid Income	228478	174660
Increase (Decrease) in other payables	6884	3017
<b>Net Cash Flow form Activities</b>	<b>297483</b>	<b>(160128)</b>
Paid Vacation Expenses	(3032)	(4494)
<b>Net Cash Flow form Operating Activities</b>	<b>294451</b>	<b>(164622)</b>
<b><u>Cash Flow form Investing Activities</u></b>		
Purchase Of Fixed Assets	(34690)	(15300)
Disposal Of Fixed Assets	---	17341
Sale Of Fixed Assets	230	---
Difference From Transfer and Change of Assets	6634	(7713)
<b>Net Cash Used in Investing Activities</b>	<b>(27826)</b>	<b>(5672)</b>
<b><u>Cash Flows From Financing Activities</u></b>		
Loans	669333	250109
<b>Net Cash From Financing Activities</b>	<b>669333</b>	<b>250109</b>
<b>Increase (Decrease) In Cash</b>	<b>935958</b>	<b>79815</b>
Cash at the Beginning of the Year	311382	231567
<b>Cash at the End of the Year</b>	<b>1247340</b>	<b>311382</b>

**The Accompanying Notes Are An Integral Part Of These Financial Statement**

**Jordan Micro Credit Company ( JMCC )**  
**Non Profit Company**  
**Notes To The Financial Statement As Of 31st Dec. 2003**

**Note 1**

**A. Status**

Jordan Micro Credit Company is a Limited Liability Company registered under No. 5749 Dated on June 25,1999 with a Capital Value JD 30.000 and the Company is A NON Profit Corporation.

**B. Activities**

Providing small Loans by conducting the best international methods & basis in Micro Loans which guarantees continuity.

**C. Summary of Significant Accounting Policies**

The Significant Accounting Policies Applied in the preparation of the Financial Statement are as follows:-

- (1) The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS)
- (2) The financial statements have been prepared on the historical cost basis.
- (3) The financial statements have been prepared on a going concern basis.
- (4) Fixed Assets are depreciated on cost using the straight-line method at rates estimated to depreciate the assets over their estimated useful lives. Annual rates of depreciation used are (2.5%) to (25%).
- (5) Financial statements are prepared on an accrual basis: transactions are recognized when they occur, not when cash is received or paid. As a conservative exception, late loan fees and penalties are recorded on a cash basis, since it is a suitable and applicable basis for the fees to be measured.
- (6) The Company deducts interest on loans up-front from the principal of the loan, These revenues from loans Interests are recognized on an accrual basis for each financial year.
- (7) Foreign currency transactions occurring during the year are expressed in JD at rates of exchange prevailing on such transaction dates. All foreign currency gains and losses are credited or charged to statement of income as they arise.

**D.** Statuary Reserve equals the Capital which is the upper limit for it according to the companies law No. 22 year 1997 act No. (75/A)

**E.** Other liabilities may appear in the future against Employees Court cases Which is expected to result J.D. (7840), Final court decision is not issued until the date of these Financial Statements.

**F.** Other Liabilities may appear against bank guarantees J.D. (21390).

**G.** There are no currency risks or mismatches in the company's accounts as the company's currency (Jordanian Dinar) is tied to the price of the US Dollar according to the instructions of the Central Bank of Jordan.

**H.** The company's loans policy doesn't require obligatory or voluntary savings or deposits from borrowers as part of their lending methodology, as it is forbidden in Jordan for any institution other than banks to mobilize savings and deposits.

**Note 2****Cash on Hand & at Bank**

	<b>2004</b>	<b>2003</b>
	<b>JD</b>	<b>JD</b>
Petty Cash	1250	950
Cash at Hand	---	3005
Cash At Bank	1081890	195937
Bank Deposits (Short Term)	163577	111490
Cash at Hand (Penalties)	623	---
<b>Total</b>	<b>1247340</b>	<b>311382</b>

**Note 3****Prepaid Expenses**

	<b>2004</b>	<b>2003</b>
	<b>JD</b>	<b>JD</b>
Lawyer Fees	350	300
Communication	2700	73
Internet	553	0
Medical Insurance	911	0
Internal Audit	117	0
Marketing	1509	0
Rents	12938	8852
Stationary	1746	272
Maintenance	626	0
Others	68	33
<b>Total</b>	<b>21518</b>	<b>9530</b>

**Note 4****Refundable Deposits**

	<b>2004</b>	<b>2003</b>
	<b>JD</b>	<b>JD</b>
Refundable Deposit / Main Center	4795	4795
Refundable Deposit / Branches	1335	465
Bank Collateral Deposits	151	151
<b>Total</b>	<b>6281</b>	<b>5411</b>

**Note 5****Net Employees Loans**

	<u>2004</u>	<u>2003</u>
	<u>JD</u>	<u>JD</u>
Employees Loans	915	3390
Loan Loss Allowance	---	(68)
<b>Total</b>	<b><u>915</u></b>	<b><u>3322</u></b>

As of 31 December 2004, employees loans totaled JD (915) and consisted of (5) loans with a 1% flat monthly interest rate deducted up front, the repayment period is 3 months and the loan amount should not exceed 75% of the employees reserve with no additional collaterals. With Only one exception a loan was given to an employee with a 6 months repayment period instead of 3 months. No late payments exist.

As of 31 December 2003, employees loans totaled JD (3390) and consisted of (6) loans with a 5% annually interest rate on a declining method, the repayment period is 20-24 months with no collaterals. One loan was faulted due to the resignation of an employee and a loan loss allowance was taken.

**Note 6****Net Clients Outstanding Loans**

	<u>2004</u>	<u>2003</u>
	<u>JD</u>	<u>JD</u>
Outstanding Loans	2709827	1846415
Loan Loss Allowance	(7138)	(22345)
<b>Total</b>	<b><u>2702689</u></b>	<b><u>1824070</u></b>

For the previous years, allowance for bad debts policy was calculated as 2% of the monthly balance of loans and was adjusted monthly to the Profit & Loss Account.

In the year 2003 a new policy was acquired upon aging of loans according to this schedule:

<u>Age / Days</u>	<u>Percentage</u>
0 - 30 Days	10%
31 - 45 Days	25%
46 - 60 Days	50%
61 - 90 Days	75%
More Than 90 Days	100%

## Note 7

### Fixed Assets

<u>Description</u>	<b>2003</b>		<b>2004</b>			<b>N.B.V</b>
	<b>Cost</b>	<b>Addition</b>	<b>Cost</b>	<b>Depreciation</b>	<b>Accum. Dep.</b>	
	<b>JD</b>	<b>JD</b>	<b>JD</b>	<b>JD</b>	<b>JD</b>	
Furniture & Fixture (H.Office)	81800	13896	95696	15762	59139	36557
Furniture & Fixture (Baqā)	6457	1193	7650	850	2845	4805
Furniture & Fixture (Hashmi)	2750	1888	4638	669	699	3939
Furniture & Fixture (Irbid)	3349	896	4245	613	973	3272
Furniture & Fixture (Zarqa)	0	4222	4222	570	570	3652
Furniture & Fixture (Ashrafiel)	0	4880	4880	663	663	4217
Furniture & Fixture (Biader)	0	3922	3922	221	221	3701
Furniture & Fixture (Marka)	0	3793	3793	141	141	3652
<b>Total</b>	<b>94356</b>	<b>34690</b>	<b>129046</b>	<b>19489</b>	<b>65251</b>	<b>63795</b>
<b><u>Removals</u></b>						
Furniture & Fixture (H.Office)	0	0	(10068)	0	(4506)	(5562)
Furniture & Fixture (Baqā)	0	0	(1399)	0	(525)	(874)
Furniture & Fixture (Hashmi)	0	0	(145)	0	(11)	(134)
Furniture & Fixture (Irbid)	0	0	(57)	0	(6)	(51)
Furniture & Fixture (Zarqa)	0	0	(155)	0	(9)	(146)
Furniture & Fixture (Ashrafiel)	0	0	(99)	0	(7)	(92)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>(11923)</b>	<b>0</b>	<b>(5064)</b>	<b>(6859)</b>
<b>Net Total</b>	<b>94356</b>	<b>34690</b>	<b>117123</b>	<b>19489</b>	<b>60187</b>	<b>56936</b>

**Note 8**  
**Loans**

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b><u>JD</u></b>	<b><u>JD</u></b>
DEF Loan 1	1237	71276
DEF Loan 2	400000	400000
DEF Loan 3	801293	61921
<b>Total</b>	<b><u>1202530</u></b>	<b><u>533197</u></b>

DEF Loan 1 is provided by Development & Employment Fund (DEF), the loan principal of JD (266450) is payable in 36 equal installments with a 4 months grace period. The loan accrues interest at 4% a year. The average of the loan (quarterly) during the year 2004 totaled JD (32151) with an annual interest expense JD (1684) and during the year 2003 totaled JD (163320) with an annual interest expense JD(8733)

DEF Loan 2 is provided by The European Community through DEF, the loan principal of JD (400000) is payable over 4 years in semi annual installments with a 2 years grace period. The loan accrues interest at 0% a year. The Loan is guaranteed by an open dated cheque.

The average of the loan (quarterly) during the year 2004 totaled JD (400000) with an annual interest expense JD (0) and during the year 2003 totaled JD (280000) with an annual interest expense JD (0)

DEF Loan 3 is provided by The Ministry of Planning through DEF, the loan principal of JD (933910) is payable in 36 equal installments with a 6 months non-obligatory grace period. The loan accrues interest at 5% a year.

The average of the loan (quarterly) during the year 2004 totaled JD (359397) with an annual interest expense JD (13690) and during the year 2003 totaled JD(12384) with an annual interest expense JD(657)

**Note 9**  
**Other Liabilities**

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b><u>JD</u></b>	<b><u>JD</u></b>
Interest Received In Advance	433332	315395
Installments Received in Advance	215016	102605
Grants Received In Advance	12610	15698
Loans Payments Deposits	1218	---
<b>Total</b>	<b><u>662176</u></b>	<b><u>433698</u></b>

**Note 10****Accrued Expenses**

	<b>2004</b>	<b>2003</b>
	<b>JD</b>	<b>JD</b>
Audit Fees	475	537
Others	10686	3740
<b>Total</b>	<b>11161</b>	<b>4277</b>

**Note 11****Administrative Expenses**

	<b>2004</b>	<b>2003</b>
	<b>JD</b>	<b>JD</b>
Salaries & Wages	252394	180527
Social Security	18965	17004
Transportation	10188	2024
Rents	22613	16208
Office Stationary, Supplies	6872	6028
Office Utilities	5948	4357
Health Insurance	6580	7840
Communication	8973	4759
Equipment & Office Maintenance	22949	12611
Others	524	304
Insurance	4342	3087
Assets Less than 500 JD	1056	1220
Marketing	8300	8190
Bank Charges	838	1440
Training Expenses	17780	7418
Lawyer, Legal & Audit Fees	11663	13041
Allowance For Vacations	6096	5989
Depreciation	19489	15392
Computer Software Upgrade	1664	20243
<b>Total</b>	<b>427234</b>	<b>327682</b>

## **Note 12**

### **Loan Loss Provision**

Management provisions for loan losses every month to maintain an adequate allowance for doubtful loans. The allowance for loans loss is determined by applying predicted loss percentages to aged loans, grouped by lateness of payments.

A loan becomes late as soon as a scheduled installment is missed. When a late payment is not paid within 1 day it is regarded as delinquent. The predicted loss percentages are based on management's analysis of historical outcomes of late loans and the best of practice of micro finance

Loans are written off 180 days after the last installment due date in a loan, on a case by case basis, loans that have no realistic prospects of recovery are written off. Write offs are taken out by deducting the outstanding principal balance from the loan portfolio and from the allowance for loan loss. Management wrote off loans totaling JD (13595) in 2004 and JD (3300) in 2003.

The Following schedule reconciles loan loss provisions, loan loss allowance and write offs:

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b><u>JD</u></b>	<b><u>JD</u></b>
Loan Loss Allowance, 1 January	(22412)	(27866)
Loan Loss Provision Expense for the Year	(2174)	(2745)
Difference Of Loan Allowances	3853	4899
Loans Written off during the Year	13595	3300
Loan Loss Allowance, 31 December	<b><u>(7138)</u></b>	<b><u>(22412)</u></b>

## **Note 13**

### **Grants**

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b><u>JD</u></b>	<b><u>JD</u></b>
AMIR Program	743400	---
DEF	3088	2301
PARQ Agency	2124	---
	<b><u>748612</u></b>	<b><u>2301</u></b>

The company records all grants in the income statement below the Net Surplus before Grants if such grants belong to the current operating period, Grants and donations for periods beyond the current operating period are recorded under other liabilities as Grants Received In Advance.

## **Note 14**

### **In-Kind Donations**

The Company relies on services contributed in kind (in portion) that are not recorded in its financial statements, as follows:

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b><u>JD</u></b>	<b><u>JD</u></b>
Full Marketing Survey	13806	---
Marketing Design & Implementation	52175	---
New Operations Manual	---	7300
Website	---	4890
Launching JMCC B2B project	---	17600
	<b><u>65981</u></b>	<b><u>29790</u></b>

## **Note 15**

### **Portfolio Quality**

The company's main measure of loan delinquency is an aged portfolio at risk (PAR) ratio. Loans are separated into classes depending on the number of days they are overdue. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the loan portfolio.

<b><u>Loans</u></b>	<b><u>PAR</u></b>	<b><u>Amount</u></b>
Current		2703334
1 - 30 days	0.04%	1120
31 - 45 days	0.00%	0
46 - 60 days	0.00%	0
61 - 90 days	0.00%	0
More than 90 days	0.23%	6288
<b>Total</b>	<b><u>0.27%</u></b>	<b><u>2710742</u></b>

Under exceptional circumstances, management may renegotiate loans, either refinancing the entire loan or rescheduling repayments terms for clients who have suffered catastrophic events and who appear willing and able to repay their loans under longer term agreements. Every renegotiation of a loan must be approved by a committee comprising the Executive Director, Operations Manager, and Branch Manager. During the financial year 2004 no renegotiated loans existed.

## **Note 16**

### **Outstanding Loans**

The company had (5105) outstanding loans at end of 2004 and (2180) at the end of 2003

## **Note 17**

Some of the 2003 balances were reclassified to correspond to 2004 presentation.