

**THE LEBANESE ASSOCIATION FOR
DEVELOPMENT - AL MAJMOUA**

Financial Statements

31 December 2008

(With Independent Auditors' Report Thereon)

THE LEBANESE ASSOCIATION FOR DEVELOPMENT - AL MAJMOUA

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Independent Auditors' Report

To the Board of Trustees
The Lebanese Association for Development – Al Majmoua

We have audited the accompanying financial statements of The Lebanese Association for Development (the “Al Majmoua”), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Al Majmoua as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

15 April 2009
Beirut, Lebanon

The Lebanese Association for Development – Al Majmoua

Balance sheet

As at 31 December			
<i>In US Dollars</i>	Note	2008	2007
Assets			
Property and equipment	5	78,623	80,878
Intangible assets	6	1,255	1,630
Loans to customers	7	299,434	346,620
Staff loans	8	102,997	84,321
Total non-current assets		482,309	513,449
Loans to customers	7	8,804,864	7,140,127
Interest receivable - loans to customers	10	140,586	121,258
Staff loans	8	97,330	83,291
Prepayments and other receivables		33,229	43,257
Grants receivable	9	20,600	165,266
Blocked deposits	11	188,291	274,028
Cash and cash equivalents	12	1,739,659	1,577,718
Total current assets		11,024,559	9,404,945
Total assets		11,506,868	9,918,394
Net assets			
Funds from donors		6,900,091	6,435,067
Results before funds from donors		3,067,498	2,319,483
Total net assets		9,967,589	8,754,550
Liabilities			
Loans and borrowings	13	176,750	426,780
Employee benefits	14	191,136	113,542
Total non-current liabilities		367,886	540,322
Loans and borrowings	13	779,599	433,357
Unearned revenue		199,120	23,006
Accounts payable	15	192,674	167,159
Total current liabilities		1,171,393	623,522
Total liabilities		1,539,279	1,163,844
Total net assets and liabilities		11,506,868	9,918,394

The notes on pages 6 to 25 are an integral part of these financial statements.

The financial statements were authorized for issue by the Executive Director on behalf of the Board of Trustees on 15 April 2009.

Dr. Youssef Fawaz
Executive Director

The Lebanese Association for Development – Al Majmoua

Income statement

For the year ended 31 December

In US Dollars

	Note	2008			2007		
		Micro Finance	Business Development Services Project	Total	Micro Finance	Business Development Services Project	Total
INCOME							
Service fees - individual loans		358,901	–	358,901	293,456	–	293,456
Interest earned on loans	16	2,426,424	–	2,426,424	1,757,768	–	1,757,768
Income from penalty fees		40,297	–	40,297	32,453	–	32,453
Income from loans to staff		17,353	–	17,353	11,248	–	11,248
Write back for impairment loss on loans	17	–	–	–	53,746	–	53,746
Total income		2,842,975	–	2,842,975	2,148,671	–	2,148,671
EXPENDITURES							
Personnel expenses	18	(1,317,777)	(88,348)	(1,406,125)	(960,711)	(80,753)	(1,041,464)
Depreciation and amortization	19	(28,023)	–	(28,023)	(26,124)	(93)	(26,217)
Administrative expenses	20	(419,041)	(349,882)	(768,923)	(329,344)	(330,510)	(659,854)
Impairment on loans to customers	17	(12,396)	–	(12,396)	–	–	–
Results from operating activities		1,065,738	(438,230)	627,508	832,492	(411,356)	421,136
Net finance income	21	30,265	–	30,265	85,762	–	85,762
Gain/(Loss) on disposal of assets		7,647	–	7,647	(14)	–	(14)
Non-operating income		12,713	–	12,713	13,379	–	13,379
Other income	22	69,882	–	69,882	139,392	–	139,392
Results before funds from donors		1,186,245	(438,230)	748,015	1,071,011	(411,356)	659,655
Funds from donors	23	152,709	312,315	465,024	167,902	439,557	607,459
Net surplus of income over expenditures		1,338,954	(125,915)	1,213,039	1,238,913	28,201	1,267,114

The notes on pages 6 to 25 are an integral part of these financial statements.

The Lebanese Association for Development – Al Majmoua

Statement of changes in net assets

For the year ended 31 December			
<i>In US Dollars</i>	Funds from	Results before	Total
	donors	funds from	net assets
		donors	
Balances at 1 January 2007	5,827,608	1,659,828	7,487,436
Results before funds from donors	–	659,655	659,655
Revenue from donors	607,459	–	607,459
Balances at 31 December 2007	<u>6,435,067</u>	<u>2,319,483</u>	<u>8,754,550</u>
Balances at 1 January 2008	6,435,067	2,319,483	8,754,550
Results before funds from donors	–	748,015	748,015
Revenue from donors	465,024	–	465,024
Balances at 31 December 2008	<u>6,900,091</u>	<u>3,067,498</u>	<u>9,967,589</u>

The notes on pages 6 to 25 are an integral part of these financial statements.

The Lebanese Association for Development – Al Majmoua

Statement of cash flows

For the year ended 31 December

In US Dollars

	Note	2008	2007
Cash flows from operating activities			
Net surplus of income over expenditures		1,213,039	1,267,114
Adjustments for:			
Depreciation		27,648	26,050
Amortization		375	167
Impairment / (recovery) of loans to customers		12,396	(53,746)
Net finance income		(30,265)	(85,762)
Other income		–	(127,569)
Loss (gain) on fixed assets disposal		(7,645)	14
		<u>1,215,548</u>	<u>1,026,268</u>
Changes in Loans to customers		(1,629,947)	(2,404,508)
Changes in interest receivables - loans to customers		(19,328)	(183,485)
Changes in staff Loans		(32,715)	(44,477)
Changes in prepayments and other receivables		10,028	(9,045)
Changes in grants receivable		144,666	(88,646)
Changes in blocked deposits		85,737	(10,766)
Changes in employee benefits		77,594	(48,837)
Changes in unearned revenue		176,114	–
Changes in accounts payable		25,515	21,034
		<u>53,212</u>	<u>(1,742,462)</u>
Interest paid		(25,992)	(34,734)
Net cash from / (used in) operating activities		<u>27,220</u>	<u>(1,777,196)</u>
Cash flows from investing activities			
Acquisition of property and equipment		(25,748)	(29,417)
Acquisition of intangible assets		–	(1,600)
Interest received		56,257	120,496
Proceeds from disposal of fixed assets		8,000	–
Net cash from investing activities		<u>38,509</u>	<u>89,479</u>
Cash flows from financing activities			
Proceeds from long-term debt		418,311	298,258
Principal payments on long-term debt		(322,099)	(137,042)
Net cash from financing activities		<u>96,212</u>	<u>161,216</u>
Net increase / (decrease) in cash and cash equivalents		<u>161,941</u>	<u>(1,526,501)</u>
Cash and cash equivalents at beginning of year		1,577,718	3,104,219
Cash and cash equivalents at end of year	12	<u><u>1,739,659</u></u>	<u><u>1,577,718</u></u>

The notes on pages 6 to 25 are an integral part of these financial statements.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

1. Reporting entity

The Lebanese Association for Development (the “Al Majmoua”) or (the “Association”) is an independent Lebanese not for profit organization domiciled in Lebanon. It was established in 1997 to help owners of small businesses, “micro-entrepreneurs”, to expand their micro-activity by offering them sustainable financial services. It was registered at the Ministry of Interior under no. 100/AD, dated 20 August 1997. Al Majmoua innovates in order to render access to financial services a right and not a luxury. Al Majmoua’s leading product is small loans for working capital. It is especially adapted to suit the needs of the thousands of poor Lebanese and non-Lebanese residents who are excluded from access to the banking sector.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in US Dollars, which is the Association’s functional currency. All financial information presented in US Dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 24 (allowance for impairment losses).

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements. Certain comparative amounts have been reclassified to confirm with the current year’s presentation.

(a) Foreign currency

Transactions in foreign currencies are translated to the Association’s functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated to the functional currency at the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

3. Significant accounting policies (continued)

(b) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise loans to customers, staff loans, grants receivable, prepayments and other receivables, blocked deposits, cash and cash equivalents, loans and borrowings, and accounts payable.

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost, less any impairment losses.

Cash and cash equivalents comprise cash balances, current bank balances and term deposits with an original maturity of three months or less.

Accounting for finance income and expense is discussed in note 3(m).

(c) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item of property and equipment. The estimated useful lives for the current and comparative years are as follows:

• General installations	8.3 years
• Computer equipment	5.0 years
• Furniture	11.1 years
• Vehicles	6.6 years
• Office equipment	7.7 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets

Intangible assets that are acquired by the Association, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

• Licences	3.0 years
• Computer software	5.0 years

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

3. Significant accounting policies (continued)

(e) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the recoverable amount based on management's best estimate.

Individually significant financial assets are tested for impairment on an individual basis.

Impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

The impairment for loans to customers considered as non-performing is calculated by applying historical default rate as follows:

	% of provision
Current loans - not yet due	0%
1 - 30 days late payment	20%
31 - 60 days late payment	40%
61 - 90 days late payment	60%
91 - 180 days late payment	80%
More than 180 days late payment	100%

(ii) Non-financial assets

The carrying amounts of the Association's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss is reversed only to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

3. Significant accounting policies (continued)

(f) Loans written off

Loans are written off on a monthly basis and they include both loan principal and any interest that may have accrued.

Loans are written-off in two cases:

- Death of the client
- More than 365 days of arrears

Write off may occur for loans with more than 180 days due, in case of severe physical disability of the client that hinders his/her ability to pay back the loan in the medium to the long term.

(g) Interest receivable on loans

Interest receivable is recorded when it is due but not collected. Collected but unearned interest is recorded as a liability (deferred interest). When loan installments are due interest revenue is recognized in the income statement.

(h) Provisions

A provision is recognized if, as a result of a past event, the Association has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

(i) Employee benefits

Al Majmoua provides for End-of-Service Indemnity (EoSI), which varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total EoSI contributions paid to the National Social Security Fund (NSSF). EoSI contributions paid to the NSSF represents 8.5% of employee benefits. The Association does not use the Projected Unit Credit method since the End-of-Service Indemnity is provided for adequately, consequently no interest and actuarial gains or losses are recognized.

(j) Revenue

(i) Service fees on loans

Revenue from service fees on loans is recognized in profit or loss upon granting the loan. The charges are directly collected once the loan is granted to clients.

(ii) Interest earned on loans

Interest earned on loans is collected with the customers' monthly installments and it is recognized in profit or loss when the installments are due. Due but unpaid interest is accrued on late loans for up to 365 days. After 365 days, late loans are classified as non-performing and further accrual of unpaid interest income ceases. Accrued interest on non performing loans is reversed out of income by being written-off, on an ongoing basis.

(iii) Donations

Donations for loan capital funding and to subsidize operating and administrative expenses are recorded in the statement of income as grant income. Income from donor grants is recognized when conditions on which they depend have been met.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

3. Significant accounting policies (continued)

(k) Expenses allocation for segment reporting

Al Majmoua allocates expenses between the Business Development Services project and the micro-finance project on actual and proportional basis depending on the nature of the expense. Major administrative expenses are allocated on actual basis except for some indirect expenses where the allocation is calculated on the basis of the number of personnel involved and the time spent on the projects. All personnel expenses are recorded on actual basis based on number of employees involved and timesheets.

(l) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(m) Finance income and expenses

Finance income comprises interest income on bank deposits. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprises interest expense on borrowings. All borrowing costs are recognized in profit or loss using the effective interest method.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Association’s 2009 financial statements, is not expected to have any impact on the financial statements.
- Revised IAS 23 *Borrowing Costs* removes the options to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Association’s 2009 financial statements and will constitute a change in accounting policy for the Association. In accordance with the transitional provisions, the Association will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Association’s 2009 financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Association’s 2009 financial statements, is not expected to have any impact on the financial statements.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

3. Significant accounting policies (continued)

(n) New standards and interpretations not yet adopted (continued)

- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Association's 2009 financial statements, is expected to have an impact on the presentation of the financial statements. The Association plans to provide total comprehensive in an income statement and a separate statement of comprehensive income for its 2009 financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements-Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Association's 2009 financial statements, with retrospective application required, are not expected to have any impact on the financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Association's operations:
 - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
 - Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - Any pre-existing interest in the acquiree will be measured at fair value with gain or loss recognized in profit or loss.
 - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Association's 2010 financial statements, will be applied prospectively and therefore there will be no impact in the Association's 2010 financial statements.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Association in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Association loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Association's 2010 financial statements, are not expected to have any impact on the financial statement.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

3. Significant accounting policies (continued)

(n) New standards and interpretations not yet adopted (continued)

- Amendment to IFRS 2 *Share-based-Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2, which become mandatory for the Association's 2009 financial statements, with retrospective application, are not expected to have any impact on the financial statement.

(o) Other disclosure requirements

Al Majmoua complies with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions. These guidelines are voluntary norms recommended by a consultative group of international donors. Thus an Association's failure to comply with these guidelines would not necessarily imply that the organization or its financial statements are in violation of any legal or other authoritative accounting or reporting standard.

4. Financial risk management

Overview

The Association has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Association's exposure to each of the above risks, the Association's objectives, policies and processes for measuring and managing risk, and the Association's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Association's management has overall responsibility for the establishment and oversight of the Association's risk management framework.

Credit risk

Credit risk is the risk of financial loss to the Association if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Association's loans to customers.

Loans to customers

The Association's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Association's customer base is distributed between individuals and groups. The Association is not subject to concentration risk since all loans are micro loans.

The Association has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Association approves lending the customers.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are new or recurring customers.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

4. Financial risk management (continued)

Credit risk (continued)

Loans to customers (continued)

The Association establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans to customers. The main components of this allowance are a specific loss component that relates to individually significant exposures established for the portfolio of customers, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Liquidity risk

Liquidity risk is the risk that the Association will not be able to meet its financial obligations as they fall due. The Association's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Association's reputation.

The Association ensures that it has sufficient cash on demand to meet expected expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Association's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Association is exposed to foreign currency risk on transactions arising from donor grants and borrowings that are denominated in currencies other than the functional currency of the Association. The currencies in which these transactions primarily are denominated are the Lebanese Pound.

The Association ensures that its net exposure is kept to an acceptable low level by limiting the transactions in this currency. No hedging is made to mitigate foreign currency risk.

Interest rate risk

The Association's exposure to interest rate fluctuations is mitigated by fixed interest rate borrowings and fixed rate loans to customers. Prevailing market interest rates are applied on all bank accounts. No hedging is made to mitigate interest rate risk. Payables are not exposed to interest rate risk as they are of a short term nature.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, grantor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Association's approach to capital management during the year.

The Association is not subject to externally imposed capital requirements.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

5. Property and equipment

In U.S. Dollars

	General installations	Computer equipment	Furniture	Vehicles	Office equipment	Total
Cost						
Balance at 1 January 2007	43,280	63,013	70,867	62,800	54,619	294,579
Additions	3,026	8,783	1,249	14,460	1,899	29,417
Disposals	–	(78)	–	–	(280)	(358)
Balance at 31 December 2007	46,306	71,718	72,116	77,260	56,238	323,638
Balance at 1 January 2008	46,306	71,718	72,116	77,260	56,238	323,638
Additions	–	11,330	8,721	–	5,697	25,748
Disposals	(2,479)	–	(21)	(14,500)	–	(17,000)
Balance at 31 December 2008	43,827	83,048	80,816	62,760	61,935	332,386
Depreciation						
Balance at 1 January 2007	30,583	54,074	37,855	56,654	37,889	217,055
Depreciation for the year	5,394	4,112	6,425	4,191	5,928	26,050
Disposals	–	(78)	–	–	(267)	(345)
Balance at 31 December 2007	35,977	58,108	44,280	60,845	43,550	242,760
Balance at 1 January 2008	35,977	58,108	44,280	60,845	43,550	242,760
Depreciation for the year	5,501	4,977	7,151	4,554	5,465	27,648
Disposals	(2,127)	–	(18)	(14,500)	–	(16,645)
Balance at 31 December 2008	39,351	63,085	51,413	50,899	49,015	253,763
Carrying amounts						
At 1 January 2007	12,697	8,939	33,012	6,146	16,730	77,524
At 31 December 2007	10,329	13,610	27,836	16,415	12,688	80,878
At 1 January 2008	10,329	13,610	27,836	16,415	12,688	80,878
At 31 December 2008	4,476	19,963	29,403	11,861	12,920	78,623

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

6. Intangible assets

In U.S. Dollars

	Licenses	Computer software	Total
Cost			
Balance at 1 January 2007	20,537	17,905	38,442
Additions	–	1,600	1,600
Balance at 31 January 2007	20,537	19,505	40,042
Balance at 1 January 2008	20,537	19,505	40,042
Balance at 31 January 2008	20,537	19,505	40,042
Amortization			
Balance at 1 January 2007	20,537	17,708	38,245
Amortization for the year	–	167	167
Balance at 31 December 2007	20,537	17,875	38,412
Balance at 1 January 2008	20,537	17,875	38,412
Amortization for the year	–	375	375
Balance at 31 December 2008	20,537	18,250	38,787
Carrying amounts			
At 1 January 2007	–	197	197
At 31 December 2007	–	1,630	1,630
At 1 January 2008	–	1,630	1,630
At 31 December 2008	–	1,255	1,255

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

7. Loans to customers

<i>In U.S. Dollars</i>	2008	2007
Non-current		
Individual loans	171,990	225,514
Economic Social Fund for Development loans (ESFD)	127,444	121,106
	<u>299,434</u>	<u>346,620</u>
Current		
Individual loans	7,526,347	6,208,982
Group loans	827,962	661,182
Economic Social Fund for Development loans (ESFD)	666,703	565,751
Impairment of loans to customers	(216,148)	(295,788)
	<u>8,804,864</u>	<u>7,140,127</u>
	<u><u>9,104,298</u></u>	<u><u>7,486,747</u></u>

Loans are denominated in the functional currency of Al Majmoua, except for ESFD loans that are denominated in the Lebanese pounds since they are funded by the loan acquired from the Council for Development and Reconstruction (CDR) which is denominated in LBP.

The Association's exposure to credit and currency risks and impairment losses related to loans from customers are disclosed in note 24.

8. Staff loans

<i>In U.S. Dollars</i>	2008	2007
Non-current		
Loan principal	102,997	84,321
Current		
Loan principal	94,348	80,011
Advances to employees	2,982	3,280
	<u>97,330</u>	<u>83,291</u>
Total staff loans	<u><u>200,327</u></u>	<u><u>167,612</u></u>

Staff who have been working with Al Majmoua for a minimum of 2 years and with a good performance are entitled to personal loans. Field Staff working for 6 months may apply for a car loan. For staff working between 6 to 18 months, they need a guarantor in order to receive a loan.

The loans are charged with an interest rate of 9% on a declining basis and the maximum repayment period is set over 36 months. The computation is based on the basic salary and the average amount of monthly bonus received by the employee over the last 6 months, along with the total number of months of service in Al Majmoua. Directors are not allowed to take loans from the Institution nevertheless, in exceptional cases, the decision remains at the discretion of the Board of directors. Rescheduling of a loan is an option only when the employee has settled more than 75% of the loan (capital and interest).

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

8. Staff loans (continued)

Advances to employees

Salary advances are granted to employees who have completed their probation period and with a good performance. Staff members may take up to one-month salary advance for emergency expenses that are not related to business needs. Salary advances are to be repaid over a maximum of three months and the payment is automatically deducted from the paycheck.

9. Grants receivable

In U.S. Dollars

	2008	2007
Project Femmes Entrepreneuses en Mediterranee - EC	–	13,534
Oxfam - Quebec	–	1,982
Tobe Cie	20,600	20,600
Oxfam Livelihood	–	113,150
IESC	–	16,000
	<u>20,600</u>	<u>165,266</u>

The Association's exposure to credit and currency risks are disclosed in note 24.

10. Interest receivable – loans to customers

In U.S. Dollars

	2008	2007
Scheduled accrued interest		
Individual loans	118,661	96,842
Group loans	15,787	15,321
Economic Social Fund for Development loans (ESFD)	6,138	9,095
	<u>140,586</u>	<u>121,258</u>

11. Blocked deposits

On October 21, 2003, Al Majmoua signed an agreement (in the form of a loan contract) with the Council for Development and Reconstruction (CDR) for the benefit of the Economic Social Fund for Development (ESFD). The agreement states that the CDR agrees to lend Al Majmoua an amount of LBP 1,800,000,000 (equivalent to USD 1,193,634) for the purpose of on-lending to micro and very small sized enterprises. The funds were disbursed to Al Majmoua in tranches in years 2004 and 2005.

According to the Project Loan Contract, during 2005 and 2006, Al Majmoua had to provide as bank guarantee an amount equivalent to 20% of the outstanding balance of the loan contract. As of 31 December 2008 the bank guarantee amounted to LBP 190 million. Against the bank guarantee, a blocked bank account (of 6 months maturity) was opened with an annual effective interest rate of 5.5%.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

12. Cash and cash equivalents

<i>In U.S. Dollars</i>	2008	2007
Cash on hand	46,659	33,878
Current bank balances	1,103,332	790,819
Term deposits	589,668	753,021
Cash and cash equivalents in the statement of cash flows	<u>1,739,659</u>	<u>1,577,718</u>

The Association's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 24.

13. Loans and borrowings

This note provides information about the contractual terms of the Association's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Association's exposure to interest rate, foreign currency and liquidity risk, see note 24.

<i>In U.S. Dollars</i>	2008	2007
Non-current liabilities		
Council for Development and Reconstruction	–	286,530
Grameen Foundation	46,750	140,250
WEPASS	90,000	–
Habitat for Humanity	40,000	–
	<u>176,750</u>	<u>426,780</u>
Current liabilities		
Council for Development and Reconstruction	286,530	275,349
Grameen Foundation	93,500	46,750
KIVA	379,569	111,258
IJMA3	20,000	–
	<u>779,599</u>	<u>433,357</u>
Total loans and borrowings	<u>956,349</u>	<u>860,137</u>

For more information about the Association's exposure to interest rate, foreign currency and liquidity risk, see note 24.

Terms and conditions of outstanding loans were as follows:

<i>In U.S. Dollars</i>	Currency	Nominal interest rate	Year of maturity	31 Dec 2008		31 Dec 2007	
				Face value	Carrying amount	Face value	Carrying amount
ESFD loan A	LBP	4%	2009	397,878	86,033	397,878	168,708
ESFD loan B	LBP	4%	2009	258,621	60,524	258,621	118,687
ESFD loan C	LBP	4%	2009	537,135	139,973	537,135	274,484
Grameen foundation	USD	4%	2010	187,000	140,250	187,000	187,000
KIVA	USD	0%	–	758,495	379,569	117,500	111,258
Habitat for Humanity	USD	4%	2011	40,000	40,000	–	–
IJMA3	USD	0%	2009	20,000	20,000	–	–
WEPASS	USD	0%	2012	90,000	90,000	–	–
				<u>2,289,129</u>	<u>956,349</u>	<u>1,498,134</u>	<u>860,137</u>

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

14. Employee benefits

<i>In U.S. Dollars</i>	2008	2007
Benefit obligations	541,922	390,455
Fair value of plan asset	(350,786)	(276,913)
	<u>191,136</u>	<u>113,542</u>

<i>In U.S. Dollars</i>	2008	2007
Cumulative contributions paid to NSSF	<u>350,786</u>	<u>276,913</u>

<i>In U.S. Dollars</i>	2008	2007
Benefit obligation at 1 January	390,455	287,759
Benefits paid	(252)	(519)
Current service cost	151,719	103,215
Benefit obligation at 31 December	<u>541,922</u>	<u>390,455</u>

<i>In U.S. Dollars</i>	2008	2007
Fair value of plan asset a 1 January	276,913	223,053
Benefits paid	(252)	(519)
Contributions paid into the plan	74,125	54,379
Fair value of plan asset a 31 December	<u>350,786</u>	<u>276,913</u>

<i>In U.S. Dollars</i>	2008	2007
Current service cost	<u>151,719</u>	<u>103,215</u>

15. Accounts payable

<i>In U.S. Dollars</i>	2008	2007
National Social Security Fund and taxes	42,629	27,617
Wages and salaries payable	41,720	23,316
Suppliers	44,148	55,810
Accruals	64,177	60,416
	<u>192,674</u>	<u>167,159</u>

The Association's exposure to currency and liquidity risk related to accounts payable is disclosed in note 34.

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

16. Interest earned on loans

<i>In U.S. Dollars</i>	2008	2007
Individual loans	2,067,096	1,481,454
Group loans	243,042	165,887
Economic Social Fund for Development loans (ESFD)	116,286	110,427
	<u>2,426,424</u>	<u>1,757,768</u>

17. Write-back / (impairment) on loans to customers

<i>In U.S. Dollars</i>	2008	2007
Normal loans	(15,388)	(151,238)
Rescheduled loans	2,992	204,984
	<u>(12,396)</u>	<u>53,746</u>

18. Personnel expenses

<i>In U.S. Dollars</i>	2008	2007
Salaries	819,338	608,082
Incentive bonuses	174,800	119,556
Other benefits	42,781	37,357
Contributions to National Social Security Fund	110,184	84,256
Current service cost	151,719	103,215
Personnel transportation and lodging	107,303	88,998
	<u>1,406,125</u>	<u>1,041,464</u>

19. Depreciation and amortization

<i>In U.S. Dollars</i>	2008	2007
Depreciation	27,648	26,050
Amortization	375	167
	<u>28,023</u>	<u>26,217</u>

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

20. Administrative expenses

<i>In U.S. Dollars</i>	2008	2007
Consumables	61,649	44,756
Purchases for BDS beneficiaries	194,158	209,542
Transportation, PTT, electricity and water	110,045	100,949
Maintenance and repairs	23,439	25,799
Field expenses, lodging and entertainment	89,500	45,297
Rent	64,200	59,716
External personnel services	139,572	80,590
Insurance premium	17,552	13,435
Legal fees and taxes	10,078	12,859
Other external services	20,742	31,485
Other charges	37,988	35,426
	<u>768,923</u>	<u>659,854</u>

21. Net finance income

<i>In U.S. Dollars</i>	2008	2007
Interest income on bank deposits	56,257	120,496
Interest expense on loans and borrowings	(25,992)	(34,734)
Net finance income	<u>30,265</u>	<u>85,762</u>

22. Other income

Other income comprises the following:

Due to the 2006 war on Lebanon the Council for Development and Reconstruction (CDR) has negotiated with Al Majmoua to write-off the outstanding loan principal balances related to projects that have been directly damaged by the war, partially or completely, or suffered assets' loss. During 2008; part of these written-off amounts were collected and recorded under other income.

Due to the demise of a few clients, their corresponding outstanding balances were written off. During 2008, part of these written-off amounts were collected and recorded under other income

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

23. Funds from donors

<i>In U.S. Dollars</i>	2008	2007
WEPASS	21,046	–
GVC	3,960	–
Oxfam - Quebec	2,869	9,957
MAP UK	20,000	10,000
Save the Children	–	45,000
Femme Entrepreneuses en Mediterranee Project - EC	–	505
Ijma3	2,400	–
Sanabel	–	488
Tobe Cie	–	51,000
Premiere Urgence	12,856	14,050
IESC	–	165,700
Enda	–	409
Grameen Foundation	–	800
Oxfam (Livelihoods)	234,122	272,950
Oxfam GB	26,198	36,600
ILO BDS	5,410	–
ILO In Capital	134,609	–
Pawl	1,554	–
	465,024	607,459
	465,024	607,459

24. Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date was:

<i>In U.S. Dollars</i>	Note	2008	2007
Loans to customers	7	9,104,298	7,486,747
Staff loans	8	200,327	167,612
Prepayments and other receivables		33,229	43,257
Grants receivable	9	20,600	165,266
Blocked deposits	11	188,291	274,028
Cash and cash equivalents	12	1,739,659	1,577,718
		11,286,404	9,714,628
		11,286,404	9,714,628

The maximum exposure to credit risk for loans to customers at the balance sheet date by type of customer was:

<i>In U.S. Dollars</i>	2008	2007
Individual loans	7,567,855	6,323,079
Group loans	816,505	624,812
ESFD	719,938	538,856
	9,104,298	7,486,747
	9,104,298	7,486,747

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

24. Financial instruments (continued)

Credit risk (continued)

The Association is not subject to any concentration risk on its loans to customers as all loans are micro loans.

Impairment losses

The aging of loans to customers at the reporting date was:

<i>In U.S. Dollars</i>	Gross	Impairment	Gross	Impairment
Not yet due	9,054,138	–	7,414,112	–
1 - 30 days late payment	39,396	7,850	60,408	12,164
31 - 60 days late payment	10,712	4,285	14,925	5,970
61 - 90 days late payment	13,687	8,212	13,196	7,918
91 - 180 days late payment	33,557	26,845	50,790	40,632
More than 180 days late payment	168,956	168,956	201,805	201,805
Rescheduled loans	–	–	27,299	27,299
	9,320,446	216,148	7,782,535	295,788

Number of outstanding loans:

	2008	2007
Outstanding loans as at 1 January	9,069	6,275
Outstanding loans as at 31 December	12,017	9,069

The movement in the allowance for impairment in respect of loans to customers during the year was as follows:

<i>In U.S. Dollars</i>	2008	2007
Balance at 1 January	295,788	586,916
Impairment loss / (recovery) on loans (note 17)	12,396	(53,746)
Write-offs	(92,036)	(237,382)
Balance at 31 December	216,148	295,788

Based on historic default rates, the Association believes that no impairment allowance is necessary in respect of loans to customers not yet due.

Liquidity risk

The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments:

<i>In U.S. Dollars</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	More than 2 years
31 December 2008					
Loans and borrowings	956,349	(1,036,718)	(808,913)	(65,725)	(162,080)
Accounts payable	192,674	(192,674)	(192,674)	–	–
	1,149,023	(1,229,392)	(1,001,587)	(65,725)	(162,080)
31 December 2007					
Loans and borrowings	860,137	(898,805)	(459,216)	(391,904)	(47,685)
Accounts payable	167,159	(167,159)	(167,159)	–	–
	1,027,296	(1,065,964)	(626,375)	(391,904)	(47,685)

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

24. Financial instruments (continued)

Currency risk

Exposure to currency risk

The Association's exposure to foreign currency risk was as follows:

<i>In U.S. Dollars</i>	LBP	USD	LBP	USD
	31 December 2008		31 December 2007	
Loans to customers	767,483	8,336,815	538,856	6,947,891
Grants receivable	–	20,600	–	165,266
Blocked deposits	–	188,291	–	274,028
Cash and cash equivalents	183,074	1,556,585	154,897	1,422,821
Loans and borrowings	(286,530)	(669,819)	(561,879)	(298,258)
Accounts payable	(50,991)	(141,683)	(35,981)	(131,178)
Gross balance sheet exposure	<u>613,036</u>	<u>9,290,789</u>	<u>95,893</u>	<u>8,380,570</u>

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

<i>In U.S. Dollars</i>	Average rate		Reporting / spot rate	
	2008	2007	2008	2007
LBP 1,507.5	1.00	1.00	1.00	1.00

Sensitivity analysis

A 10 percent strengthening of the US Dollars against the following currencies at 31 December would have increased (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

31 December	2008	2007
LBP	(61,304)	(9,589)

A 10 percent weakening of the US Dollars against the above currency at 31 December would have had the equal but opposite effect on the above currency to the amount shown above, on the basis that all other variables remain constant.

Interest rate risk

At balance sheet date, the interest rate profile of the Association's interest bearing financial instruments was:

<i>In U.S. Dollars</i>	Carrying amount	
	2008	2007
Fixed rate instruments		
Loans to customers	9,104,298	7,486,747
Staff loans	200,327	167,612
Blocked deposits	188,291	274,028
Cash and cash equivalents	589,668	753,021
Loans and borrowings	(466,780)	(748,879)
	<u>9,615,804</u>	<u>7,932,529</u>

The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

25. Related party transactions

(i) Transaction with key management personnel

Key management personnel compensation

In U.S. Dollars

Short-term employee benefits

Employee benefits

	2008	2007
Short-term employee benefits	88,370	74,177
Employee benefits	18,320	22,640