

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

Financial Statements

31 December 2006

(With Independent Auditors' Report Thereon)

# THE LEBANESE ASSOCIATION FOR THE DEVELOPMENT - AL MAJMOUA

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## **Independent Auditors' Report**

Board of Trustees  
The Lebanese Association for Development – Al Majmoua

### **Report on the financial statements**

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 2006, and the income statement, statement of changes in net assets and statement of cash flows 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.



### **Independent Auditors' Report (continued)**

#### **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 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Report on other legal and regulatory requirements**

The terms of reference for this audit call for the auditor to express a conclusion as to whether the financial statements of the Al Majmoua comply with the Disclosure Guidelines for Financial Reporting by Microfinance Institution. These guidelines are voluntary norms recommended by a consultative group of international donors. Thus an organization'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.

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

11 May 2007  
Beirut, Lebanon

**The Lebanese Association for Development – Al Majmoua**

Balance sheet

As at 31 December 2006

(In US Dollars)

<b>ASSETS</b>	<b>Note</b>	<b>2006</b>	<b>2005</b>
Property and equipment	4	77,524	100,638
Intangible assets	5	197	432
Loans to customers	6	115,708	428,875
Staff loans	7	70,074	35,368
Grants receivable	8	22,557	-
<b>Total non-current assets</b>		<u>286,060</u>	<u>565,313</u>
Loans to customers	6	4,605,635	5,078,621
Interest receivable - loans to customers	9	107,198	79,616
Staff loans	7	69,103	55,406
Prepayments and other receivables		35,212	37,569
Grants receivable	8	54,063	-
Blocked deposits	10	263,262	432,568
Cash and cash equivalents	11	3,104,219	2,215,122
<b>Total current assets</b>		<u>8,238,692</u>	<u>7,898,902</u>
<b>Total assets</b>		<u>8,524,752</u>	<u>8,464,215</u>
 <b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>			
Net assets		<u>7,487,436</u>	<u>7,102,386</u>
 <b>Liabilities</b>			
Loans and borrowings	12	561,879	826,484
Employee benefits	13	64,706	60,836
<b>Total non-current liabilities</b>		<u>626,585</u>	<u>887,320</u>
Loans and borrowings	12	264,606	254,281
Accounts payable and deferred interest	14	146,125	220,228
<b>Total current liabilities</b>		<u>410,731</u>	<u>474,509</u>
<b>Total liabilities</b>		<u>1,037,316</u>	<u>1,361,829</u>
<b>Total net assets and liabilities</b>		<u>8,524,752</u>	<u>8,464,215</u>

See accompanying notes to financial statements.

The financial statements and the notes thereto on pages 3 to 23 were approved by the Executive Director on behalf of the Board of Trustees on 11 May 2007.

Youssef Fawaz  
Executive Director



**The Lebanese Association for Development – Al Majmoua**

Income statement

Year ended 31 December 2006

(In US Dollars)

	Note	2006		2005
		Micro Finance	Business Development Services Project	Total
<b>INCOME</b>				
Service fees	15	191,339	-	191,339
Interest earned on loans	16	1,677,643	-	1,677,643
Proceeds from penalty fees		22,147	-	22,147
Proceeds from loans to staff		8,985	-	8,985
Write back for impairment loss on loans		6,868	-	6,868
<b>Total income</b>		<u>1,906,982</u>	<u>-</u>	<u>1,906,982</u>
<b>EXPENDITURES</b>				
Personnel expenses	17	(726,700)	(27,946)	(754,646)
Depreciation and amortization	18	(28,672)	(15)	(28,687)
Administrative expenses	19	(393,426)	(20,016)	(413,442)
Impairment loss on loans	20	(594,835)	-	(594,835)
<b>Results from operating activities</b>		<u>163,349</u>	<u>(47,977)</u>	<u>115,372</u>
<b>Net finance income</b>	21	64,786	-	64,786
Revenue from donors	22	2,450	201,420	203,870
Loss on disposal of assets		(2,780)	-	(2,780)
Non-operating income		3,802	-	3,802
<b>Net surplus of income over expenditures</b>		<u><u>231,607</u></u>	<u><u>153,443</u></u>	<u><u>385,050</u></u>
				<u><u>738,286</u></u>

See accompanying notes to financial statements.

**The Lebanese Association for Development – Al Majmoua**

Statement of changes in net assets

Year ended 31 December 2006

(In US Dollars)

	<b>Grants</b>	<b>Operating income</b>	<b>Total net assets</b>
<b>Balances at 1 January 2005</b>	5,623,738	740,362	6,364,100
Net surplus of income over expenditures	-	738,286	738,286
<b>Balances at 31 December 2005</b>	<u>5,623,738</u>	<u>1,478,648</u>	<u>7,102,386</u>
Additions in grants	203,870	-	203,870
Net surplus of income over expenditures	-	181,180	181,180
	<u>203,870</u>	<u>181,180</u>	<u>385,050</u>
<b>Balances at 31 December 2006</b>	<u><u>5,827,608</u></u>	<u><u>1,659,828</u></u>	<u><u>7,487,436</u></u>

See accompanying notes to financial statements.

**The Lebanese Association for Development – Al Majmoua**

Statement of cash flows

Year ended 31 December 2006

(In US Dollars)

	<b>Note</b>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>			
Net surplus of income over expenditures		385,050	738,286
Adjustments for:			
Depreciation		28,452	34,867
Amortization		235	6,545
Employee benefits		3,870	954
Impairment of loans to customers		594,835	10,743
Net finance income		(64,786)	(40,001)
Loss on fixed assets disposal		2,780	76
		<u>950,436</u>	<u>751,470</u>
Changes in assets and liabilities:			
Non current loan receivable		313,167	(338,246)
Current loan receivable		(149,431)	(249,943)
Staff Loans		(48,403)	(15,144)
Grants receivable		(76,620)	-
Prepayments and other receivables		2,357	(12,653)
Blocked deposits		169,306	(32,568)
Accounts payable and deferred interest		(74,103)	118,068
		<u>1,086,709</u>	<u>220,984</u>
Interest paid		(39,448)	(23,143)
<b>Net cash from operating activities</b>		<u>1,047,261</u>	<u>197,841</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment		(8,118)	(2,001)
Interest received		104,234	63,144
<b>Net cash from investing activities</b>		<u>96,116</u>	<u>61,143</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of long-term debt		-	795,757
Principal payments on long-term debt		(254,280)	(112,869)
<b>Net cash from (used in) financing activities</b>		<u>(254,280)</u>	<u>682,888</u>
<b>Net increase in cash and cash equivalents</b>		889,097	941,872
Cash and cash equivalents at beginning of year		<u>2,215,122</u>	<u>1,273,250</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>3,104,219</u></u>	<u><u>2,215,122</u></u>

See accompanying notes to financial statements.

## The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

31 December 2006

(In US Dollars)

### (1) Reporting entity

The Lebanese Association for Development (the “Al Majmoua”) 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). These are the first financial statements where IFRS has been applied.

#### (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, the Al Majmoua’s functional currency.

#### (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 recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the note 6 (loans to customers).

### (3) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2005 for the purposes of the transition to IFRSs.

Certain comparative amounts have been reclassified to conform with the current year’s presentation.

## The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

31 December 2006

(In US Dollars)

### (3) Significant accounting policies (continued)

#### (a) Foreign currency

Transactions in foreign currencies are translated to the Al Majmoua'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. Foreign currency differences arising on retranslation are recognised in profit or loss.

#### (b) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise loans to customers, blocked deposits, cash and cash equivalents, loans and borrowings, and accounts payable.

##### (i) Loans to customers

Loans to customers are carried at amortised cost. Bad debts are written off when identified and an estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

##### (ii) Cash and cash equivalents

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

##### (iii) Accounts payable

Accounts payable are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

##### (iv) Loans and borrowings

Loans and borrowings are measured at the amount of proceeds received, net of transactions costs. All borrowing costs are recognized as an expense in the income statement in the period in which they are incurred.

#### (c) Property and equipment

##### (i) Recognition and measurement

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 capitalised as part of that equipment.

## The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

31 December 2006

(In US Dollars)

### (3) Significant accounting policies (continued)

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

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



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

#### (d) Intangible assets

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

##### (i) Amortisation

Amortisation is recognised 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 periods are as follows:



#### (e) Impairment

##### (i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative event on the estimate of future cash flows of that asset.

Financial assets are assessed collectively in groups that share similar credit risk characteristics.

All 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 loans measured net of impairment, the reversal is recognized in profit or loss.

**The Lebanese Association for Development – Al Majmoua**

Notes to the financial statements

31 December 2006

(In US Dollars)

**(3) Significant accounting policies (continued)**

The impairment for loans considered as non-performing is calculated by applying predicted loss percentage to aged loans, grouped by lateness of payment as follows:

	<b>Normal loans</b>	<b>Rescheduled loans</b>
Current loans	0%	25%
1 - 30 days late payment	20%	50%
31 - 60 days late payment	40%	75%
61 - 90 days late payment	60%	75%
91 - 180 days late payment	80%	100%
More than 180 days late payment	100%	100%

Management calculates impairment loss on a monthly basis to maintain adequate impairment.

**(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.

Write off is immediate in two cases:

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

Write off may occur for loans with more than 180 days arrears, 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 run.

Interest continues to accrue on arrears until it is reversed out of income by being written off with corresponding written off loans.

**(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 Organization 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. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

## The Lebanese Association for Development – Al Majmoua

Notes to the financial statements

31 December 2006

(In US Dollars)

### (3) Significant accounting policies (continued)

#### (i) *Employee benefits*

- (i) Employees end-of-service indemnity provision

The Al Majmoua provides for End of Service Indemnity (EoSI) to its employees, 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 National Social Security Fund (NSSF).

#### (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.

#### (k) *Expenses allocation for segment reporting*

Al Majmoua allocates expenses between the BDS 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) *Finance income and expenses*

Finance income comprises interest income on bank deposits. Interest income is recognized as it accrues.

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

**The Lebanese Association for Development – Al Majmoua**

Notes to the financial statements

31 December 2006

(In US Dollars)

**(4) Property and equipment**

	General installation	Computer equipment	Furniture	Vehicles	Office equipment	Total
<b>Cost</b>						
Balance at 1 January 2005	49,121	59,732	70,904	62,800	53,320	295,877
Additions	-	1,122	300	-	579	2,001
Disposals	-	(235)	(70)	-	-	(305)
Balance at 31 December 2005	<u>49,121</u>	<u>60,619</u>	<u>71,134</u>	<u>62,800</u>	<u>53,899</u>	<u>297,573</u>
Balance at 1 January 2006	49,121	60,619	71,134	62,800	53,899	297,573
Additions	-	6,154	-	-	1,964	8,118
Disposals	(5,841)	(3,760)	(267)	-	(1,244)	(11,112)
Balance at 31 December 2006	<u>43,280</u>	<u>63,013</u>	<u>70,867</u>	<u>62,800</u>	<u>54,619</u>	<u>294,579</u>
<b>Depreciation</b>						
Balance at 1 January 2005	22,595	45,981	25,238	42,603	25,882	162,299
Depreciation for the year	5,895	7,184	6,380	8,622	6,784	34,865
Disposals	-	(192)	(37)	-	-	(229)
Balance at 31 December 2005	<u>28,490</u>	<u>52,973</u>	<u>31,581</u>	<u>51,225</u>	<u>32,666</u>	<u>196,935</u>
Balance at 1 January 2006	28,490	52,973	31,581	51,225	32,666	196,935
Depreciation for the year	5,884	4,850	6,396	5,429	5,893	28,452
Disposals	(3,791)	(3,749)	(122)	-	(670)	(8,332)
Balance at 31 December 2006	<u>30,583</u>	<u>54,074</u>	<u>37,855</u>	<u>56,654</u>	<u>37,889</u>	<u>217,055</u>
<b>Carrying amounts</b>						
At 1 January 2005	<u>26,526</u>	<u>13,751</u>	<u>45,666</u>	<u>20,197</u>	<u>27,438</u>	<u>133,578</u>
At 31 December 2005	<u>20,631</u>	<u>7,646</u>	<u>39,553</u>	<u>11,575</u>	<u>21,233</u>	<u>100,638</u>
At 1 January 2006	<u>20,631</u>	<u>7,646</u>	<u>39,553</u>	<u>11,575</u>	<u>21,233</u>	<u>100,638</u>
At 31 December 2006	<u>12,697</u>	<u>8,939</u>	<u>33,012</u>	<u>6,146</u>	<u>16,730</u>	<u>77,524</u>

**The Lebanese Association for Development – Al Majmoua**

Notes to the financial statements

31 December 2006

(In US Dollars)

**(5) Intangible assets**

	<b>Licenses</b>	<b>Computer software</b>	<b>Total</b>
<b>Cost</b>			
Balance at 1 January 2005 and 31 December 2005	<u>20,537</u>	<u>17,905</u>	<u>38,442</u>
Balance at 1 January 2006 and 31 December 2006	<u>20,537</u>	<u>17,905</u>	<u>38,442</u>
<b>Amortization</b>			
Balance at 1 January 2005	14,571	16,892	31,463
Amortization for the year	<u>5,966</u>	<u>581</u>	<u>6,547</u>
Balance at 31 December 2005	<u>20,537</u>	<u>17,473</u>	<u>38,010</u>
Balance at 1 January 2006	20,537	17,473	38,010
Amortization for the year	<u>-</u>	<u>235</u>	<u>235</u>
Balance at 31 December 2006	<u>20,537</u>	<u>17,708</u>	<u>38,245</u>
<b>Carrying amounts</b>			
At 1 January 2005	<u>5,966</u>	<u>1,013</u>	<u>6,979</u>
At 31 December 2005	<u>-</u>	<u>432</u>	<u>432</u>
At 1 January 2006	<u>-</u>	<u>432</u>	<u>432</u>
At 31 December 2006	<u>-</u>	<u>197</u>	<u>197</u>

**The Lebanese Association for Development – Al Majmoua**

Notes to the financial statements

31 December 2006

(In US Dollars)

**(6) Loans to customers**

	<b>2006</b>	<b>2005</b>
<b>Non-current</b>		
Individual loans	6,742	159,446
Group loans	-	285
Economic Social Fund of Lebanon loans (ESFD)	123,345	275,309
	<u>130,087</u>	<u>435,040</u>
Impairment of loans to customers	<u>(14,379)</u>	<u>(6,165)</u>
	<u><u>115,708</u></u>	<u><u>428,875</u></u>
 <b>Current</b>		
Individual loans	4,094,733	4,160,034
Group loans	440,383	514,033
Economic Social Fund of Lebanon loans (ESFD)	643,056	477,534
	<u>5,178,172</u>	<u>5,151,601</u>
Impairment of loans to customers	<u>(572,537)</u>	<u>(72,980)</u>
	<u><u>4,605,635</u></u>	<u><u>5,078,621</u></u>

(i) Impairment of loans to customers

	<b>2006</b>	<b>2005</b>
Impairment of loans to customers as at 1 January	79,145	139,378
Impairment loss of loans to customers ( note 20)	594,835	10,743
Write offs	<u>(87,064)</u>	<u>(70,976)</u>
Impairment of loans to customers as at 31 December	<u>586,916</u>	<u>79,145</u>

(ii) Impairment of loans to customers distribution

	<b>2006</b>	<b>2005</b>
Impairment of non-current loans to customers	14,379	6,165
Impairment of current loans to customers	<u>572,537</u>	<u>72,980</u>
	<u>586,916</u>	<u>79,145</u>

Loans are denominated by the functional currency of Al Majmoua, except for ESFD loans that are denominated by 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 Lebanese Association for Development – Al Majmoua**

Notes to the financial statements

31 December 2006

(In US Dollars)

<b>(7) Staff loans</b>		
	<b>2006</b>	<b>2005</b>
<b>Non-current</b>		
Loan principal	<u>70,074</u>	<u>35,368</u>
<b>Current</b>		
Loan principal	66,508	51,235
Advances to employees	<u>2,595</u>	<u>4,171</u>
	<u>69,103</u>	<u>55,406</u>
	<u>139,177</u>	<u>90,774</u>
<b>(8) Grants receivable</b>		
	<b>2006</b>	<b>2005</b>
<b>Non-current</b>		
Project Femmes Entrepreneuses en Mediterranee - EC	22,557	-
<b>Current</b>		
Project Femmes Entrepreneuses en Mediterranee - EC	46,063	-
Oxfam - Quebec	<u>8,000</u>	<u>-</u>
	<u>54,063</u>	<u>-</u>
	<u>76,620</u>	<u>-</u>
<b>(9) Interest receivable – loans to customers</b>		
	<b>2006</b>	<b>2005</b>
<b>Scheduled interest</b>		
Individual loans	758,514	844,654
Group loans	56,787	65,668
Economic Social Fund of Lebanon loans (ESFD)	<u>90,151</u>	<u>109,928</u>
	<u>905,452</u>	<u>1,020,250</u>
<b>Scheduled and not yet due interest</b>		
Individual loans	(667,748)	(775,590)
Group loans	(42,729)	(55,714)
Economic Social Fund of Lebanon loans (ESFD)	<u>(87,777)</u>	<u>(109,330)</u>
	<u>(798,254)</u>	<u>(940,634)</u>
<b>Total interest receivable on loans to customers</b>	<u>107,198</u>	<u>79,616</u>

**The Lebanese Association for Development – Al Majmoua**

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**(10) Blocked deposits**

On October 21, 2003, Al Majmoua signed an agreement (in the form of a loan contract) “EC Project LBN/B7-4100/99/0225” with the Council for Development and Reconstruction (CDR) for the benefit of the Economic Social Fund of Lebanon (ESFD). The agreement states that the CDR agrees to lend Al Majmoua an amount of LBP 1,800,000,000 (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 EC Project LBN/B7-4100/99/0225 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 2006 the bank guarantee as per Fransabank bank statement was US\$ 263,262. Against the bank guarantee, a blocked bank account (of 6 months maturity) was opened with an annual effective interest rate of 5.5%.

**(11) Cash and cash equivalents**

	<b>2006</b>	<b>2005</b>
Bank balances	3,083,229	2,210,640
Cash on hand	20,990	4,482
Cash and cash equivalents	<u>3,104,219</u>	<u>2,215,122</u>

**(12) Loans and borrowings**

Debt instrument	Original loan	Interest rate	Quarterly installments	Remaining installemnts	Maturity date	Outstanding principal
ESFD loan A	397,878	4%	22,049	12	31 Dec 2009	248,158
ESFD loan B	258,621	4%	15,511	12	31 Dec 2009	174,580
ESFD loan C	537,135	4%	35,872	12	31 Dec 2009	403,747
	<u>1,193,634</u>		<u>73,432</u>			<u>826,485</u>

(i) Loans and borrowing distribution

	<b>2006</b>	<b>2005</b>
<b>Non-current liabilities</b>		
Finance liabilities - Council for Development and Reconstruction	<u>561,879</u>	<u>826,484</u>
<b>Current liabilities</b>		
Finance liabilities - Council for Development and Reconstruction	<u>264,606</u>	<u>254,281</u>
	<u>826,485</u>	<u>1,080,765</u>

A loan contract was signed with the Council for Development and Reconstruction (CDR) on 21 October 2003 for LBP 1,800,000,000 (equivalent to \$ 1,193,634) with a 4% annual interest rate.

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**(12) Loans and borrowings (continued)**

The funds were disbursed to Al Majmoua in tranches and the principal and interest are payable in LBP. The loan will mature as at 31 December 2009.

This note provides information about the contractual terms of the Al Majmoua's interest-bearing loans and borrowings. For more information about Al Majmoua's exposure to interest rate and foreign currency risk refer to note 28.

**(13) Employee benefits**

*Employees end- of- service indemnity provision*

	<b>2006</b>	<b>2005</b>
Beginning balance	60,836	59,882
Provisions raised during the period	10,512	1,016
Provisions used during the period	(6,642)	(62)
	<u>64,706</u>	<u>60,836</u>

**(14) Accounts payable and deferred interest**

	<b>2006</b>	<b>2005</b>
National Social Security Fund and taxes	17,172	16,363
Wages and salaries payable	17,960	12,289
Suppliers	28,880	80,239
Accruals	69,104	111,337
Deferred interest - loans to customers	13,009	-
	<u>146,125</u>	<u>220,228</u>

**(15) Service fees**

	<b>2006</b>	<b>2005</b>
Individual loans - fees	191,339	196,632
Group loans - fees	-	1,446
	<u>191,339</u>	<u>198,078</u>

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**(16) Interest earned on loans**

	<b>2006</b>	<b>2005</b>
Individual loans	1,371,170	1,358,095
Group loans	158,247	182,099
Economic Social Fund of Lebanon loans (ESFD)	148,226	86,577
	<u>1,677,643</u>	<u>1,626,771</u>

**(17) Personnel expenses**

	<b>2006</b>	<b>2005</b>
Salaries	554,453	486,764
Incentive bonuses	52,499	40,145
Other benefits	29,524	26,832
Contributions to National Social Security Fund	118,170	103,088
	<u>754,646</u>	<u>656,829</u>

**(18) Depreciation and amortization**

	<b>2006</b>	<b>2005</b>
Depreciation	28,452	34,865
Amortization	235	6,547
	<u>28,687</u>	<u>41,412</u>

**(19) Administrative expenses**

	<b>2006</b>	<b>2005</b>
Consumables	27,601	23,896
Transportation, PTT, electricity and water	68,094	65,394
Maintenance and repairs	22,954	21,845
Field expenses, lodging and entertainment	111,487	97,462
Rent	59,257	58,541
External personnel services	51,400	153,143
Insurance premium	12,180	11,508
Legal fees and taxes	10,803	20,449
Provision for contingencies and charges	10,512	1,016
Other external services	12,729	10,912
Other charges	26,425	7,334
	<u>413,442</u>	<u>471,500</u>

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**(20) Impairment loss of loans to customers**

	<b>2006</b>	<b>2005</b>
Normal portfolio	361,313	10,743
Rescheduled portfolio	233,522	-
	<u>594,835</u>	<u>10,743</u>

After the summer 2006 war, due to the bad economic and humanitarian situation, Al Majmoua management renegotiated loans by rescheduling repayment terms either through a grace period and/or loan term extension. All rescheduled loans are treated as new loans and tracked separately because they have higher risk profile than the loans that have not been renegotiated.

**(21) Net finance income**

	<b>2006</b>	<b>2005</b>
Interest income on bank deposits	104,234	63,144
Interest expense on CDR loan	(39,448)	(23,143)
Net finance income	<u>64,786</u>	<u>40,001</u>

**(22) Revenue from donors**

	<b>2006</b>	<b>2005</b>
World bank	5,000	-
SEAL private fund	12,000	-
Oxfam - Quebec	19,825	-
MAP UK	20,000	-
Save the Children	6,793	-
Femme Entrepreneuses en Mediterranee Project - EC	107,207	-
AECI	32,595	-
Sanabel	450	-
	<u>203,870</u>	<u>-</u>

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**(23) Impairment loss on loan computation**

	Share %	Arrears	Policy %	Impairment loss of receivables
<b>Normal loans</b>				
1 - 30 days late payment	12%	175,172	20%	35,034
31 - 60 days late payment	8%	112,583	40%	45,033
61 - 90 days late payment	6%	84,117	60%	50,470
91 - 180 days late payment	15%	217,897	80%	174,317
More than 180 days late payment	3%	49,093	100%	49,093
<b>Rescheduled loans</b>				
Not yet due	52%	759,350	25%	189,838
1 - 30 days late payment	3%	48,744	50%	24,372
31 - 60 days late payment	2%	24,741	75%	18,557
61 - 90 days late payment	0%	268	75%	202
More than 91 days late payment	0%	-	100%	-
<b>Total</b>	<b>100%</b>	<b>1,471,965</b>		<b>586,916</b> *

\* See note 6 (i)

**(24) Portfolio at risk**

	Portfolio at risk %	Outstanding principal balance
<b>Normal loans</b>		
Not yet due		3,836,294
1 - 30 days late payment	3%	175,172
31 - 60 days late payment	2%	112,583
61 - 90 days late payment	2%	84,117
91 - 180 days late payment	4%	217,897
More than 180 days late payment	1%	49,093
	<b>12%</b>	<b>4,475,156</b>
<b>Rescheduled loans</b>		
Not yet due	14%	759,350
1 - 30 days late payment	1%	48,744
31 - 60 days late payment	0%	24,741
61 - 90 days late payment	0%	268
More than 91 days late payment	0%	-
	<b>16%</b>	<b>833,103</b>
<b>Total</b>	<b>28%</b>	<b>5,308,259</b>

## The Lebanese Association for Development – Al Majmoua

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### (25) Number of outstanding loans

	2006	2005
Outstanding loans as at 1 January	6,089	6,027
Outstanding loans as at 31 December	6,275	6,089

### (26) In-kind donations

In 2006, Al Majmoua relied on several training sessions and workshops for its staff, offered as in-kind donations. These in-kind contributions are not recorded in its income statement. Al Majmoua's management estimates a fair value for these services of USD 18,165.

### (27) Balance sheet accounts related to microfinance services

The following accounts are completely or almost tied to micro-finance services:

Assets: client loans and staff loans.

Liabilities: Loans and borrowings and deferred interest

### (28) Financial instruments

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of Al Majmoua's business.

#### (a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Al Majmoua does not require collateral in respect of financial assets.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the balance sheet.

#### (b) Interest rate risk

Al Majmoua's exposure to interest rate fluctuations is mitigated by fixed interest rate borrowings. Al Majmoua does not engage in speculative transactions or take speculative positions on its interest expense. Al Majmoua's fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates.

#### (c) Liquidity risk

Al Majmoua manages its debt maturity profile, operating cash flows and the availability of funding so as to meet all refinancing, repayment and funding needs. As part of its overall liquidity management, Al Majmoua maintains sufficient levels of cash or fixed deposits to meet its working capital requirement. In addition, Al Majmoua maintains banking facilities of a reasonable level.

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### (28) Financial instruments (continued)

#### (d) Foreign currency risk

Al Majmoua is exposed to foreign currency risk on transactions arising from donor grants received in currencies other than the local and the functional currency. The currency giving rise to this risk is primarily the EURO.

Foreign exchange exposures in transactional currencies other than the local and functional currency are monitored via periodic project cash flow and budget forecasts and are kept to an acceptable level.

#### (e) Fair value estimation

The face value less any estimated adjustments for financial assets and liabilities with the maturity of less than 1 year is assumed to approximate their fair value.

### (29) Related party transactions

#### (i) Staff loans

Staffs 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 grantor 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).

#### (ii) 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.

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**(30) Explanation of transition to IFRSs**

As stated in note 2(a), these are Al Majmoua's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statement for the year ended 31 December 2006, the comparative information in these financial statements for the year ended 31 December 2005 and in the preparation of an opening IFRS balance sheet at 1 January 2006 (Al Majmoua's date of transition).

In preparing its opening IFRS balance sheet, Al Majmoua did not need to adjust amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previously U.S. GAAP).