



LEAD FOUNDATION

**FINANCIAL STATEMENTS
TOGETHER WITH THE AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005**

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AUDITOR'S REPORT

To : Lead Foundation

We have audited the financial statements of **Lead Foundation** which are comprised the balance sheet and the statement of income for the year then ended December 31, 2005. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with The Egyptian Accounting Standards on auditing and in light of governing laws. 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 for the documents and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lead Foundation as of December 31, 2005 and the results of its operations for the year then ended in conformity with the CGAP Guide Lines.

DR. AHMED SHAWKI


 **MOSTAFA SHAWKI & CO.**

Cairo, June 18, 2006



TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN ARABIC

LEAD FOUNDATION
BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2005
(Amount expressed in LE)

	<u>Disclosure No .</u>	<u>31/12/2004</u>	<u>31-12-2005</u>
		<u>L.E</u>	<u>L.E</u>
<u>ASSETS:</u>			
Cash		1,125,202	2,069,923
Short Term Deposits		10,018,519	27,062,977
Total Loan Portfolio		6,681,922	18,411,209
Loan loss reserve		(4,125)	--
		-----	-----
Net loan portfolio	(4)	6,677,797	18,411,209
Fixed Assets	(3/C)	3,329,867	3,339,636
Other Assets	(5)	186,591	163,960
		-----	-----
TOTAL ASSETS		<u>21,337,976</u>	<u>51,047,705</u>
<u>LIABILITES & EQUITY</u>			
<u>LIABILITIES</u>			
Liabilities with other banks		6,369,481	15,422,728
Accounts Payable		17,669	608
Accruals	(6)	99,633	230,469
		-----	-----
TOTAL LIABILITIES		<u>6,486,783</u>	<u>15,653,805</u>
<u>EQUITY</u>			
Balance of Retained earnings 2004		--	14,851,193
Retained earnings		14,851,193	20,542,707
		-----	-----
Total Equity		<u>14,851,193</u>	<u>35,393,900</u>
		-----	-----
TOTAL LIABILITIES & EQUITY		<u>21,337,976</u>	<u>51,047,705</u>

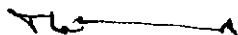
Notes:

1- Outstanding Loan Portfolio


Current Loan Portfolio	6,677,797	18,323,036
Delinquent Loan Portfolio - overdue 1 to 30 days	--	88,173
Delinquent Loan Portfolio - overdue 31 days	4,125	--
	-----	-----
Total Loan Portfolio	<u>6,681,922</u>	<u>18,411,209</u>
Loan Loss Provision	(4,125)	--
	-----	-----
Net Loan Portfolio	<u>6,677,797</u>	<u>18,411,209</u>

- The accompanying notes are an integral part of these financial statements
- Auditor's report attached

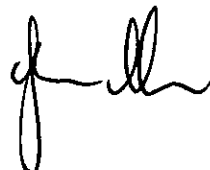
Chairman Board of Directors



Financial Manager


June 18, 2006

Treasurer



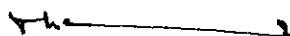
TRANSLATION OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN ARABIC

LEAD FOUNDATION
INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005
(Amounts expressed in LE)

	<u>Disclosure No</u>	<u>31/12/2004</u>	<u>31/12/2005</u>
		<u>L.E</u>	<u>L.E</u>
INCOME			
FINANCIAL REVENUE			
Financial Revenue from Loan Portfolio		589,686	3,971,492
Financial Revenue from Investments		64,879	573,487
		-----	-----
Total Financial Revenue		654,565	4,544,979
EXPENSES			
Financial Expenses			
Interest & Fee Expenses on funding	(7)	291,027	1,302,695
		-----	-----
FINANCIAL MARGIN		<u>363,538</u>	<u>3,242,284</u>
Provision for Loan Losses		4,125	(4,125)
Loans written off		-	4,125
Depreciation		198,676	572,355
Administrative Expenses			
Personnel Expenses	(8)	2,240,927	3,534,536
Other Administrative Expenses	(9)	664,939	1,130,977
		-----	-----
NET OPERATING INCOME/LOSS		<u>(2,745,129)</u>	<u>(1,995,584)</u>
<u>Non Operating Revenue & Expenses</u>			
Grants and Donations	(10)	17,653,278	22,464,635
Other Non Operating Income		73,168	23,666
Other Non Operating (Expenses)/ Revenue		(130,124)	49,990
		-----	-----
NET INCOME		<u>14,851,193</u>	<u>20,542,707</u>

- The accompanying notes are an integral part of these financial statements
- Auditor's report attached

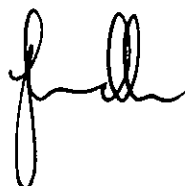
Chairman Board of Directors



Financial Manager


June 18, 2006

Treasurer



LEAD FOUNDATION
DISCLOSURES TO THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2005

1. GENERAL

Lead Foundation was established as NGO for developing and improving projects on 6th of May 2003 with number 1765 according to Law No 84 for the year 2002. Lead started lending activities in October 2003

2 FOUNDATION PURPOSE

- a- Financing existing small enterprises located in the poorer areas in Egypt according to article No 48 of the executive regulations.
- b- Supporting the development and the improvement of projects by organizing educational and training courses for commercial skills ie marketing , sales and Book- keeping.
- c- Providing to improve and upgrade marketing skills in a cooperation with the private sector in various fields regarding the Foundation's scope of work
- d- Establishing more social development projects in order to create more job opportunities within the Foundation's scope of work
- e- Create cultural exchange programs between the Foundation and other similar Foundations, internally and externally, and organizing conferences which may serve the purpose of the Foundation.

- These activities are to be performed with the agreement of the responsible organizations according to Article No 48 of the Executive Regulation .

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts have been prepared in accordance with the Egyptian Accounting Standards.

a. Foreign Currency Transactions

The Foundation maintains its records in Egyptian pounds. Transactions undertaken during the year denominated in foreign currencies are translated using the free market exchange rates prevailing at the transaction date. At year-end, monetary assets and liabilities dominated in foreign currencies transactions are translated to Egyptian Pounds using the prevailing exchange rate as of that date. An exchange rate of US\$ 1.00 = at L.E 5.74 was used for US Dollars denominated transaction .Translation differences are included in the statement of income.

b. Lending Revenue Recognition

Lending revenues are recorded including the cash interest received during the period annual interest rate using the following :

- Small Enterprises - 16%
- Group Lending - 26%

c. Fixed Assets

The Fixed assets are stated at acquisition cost, and recorded using their historical cost and are depreciated using the straight-line method starting from the date of utilization of each asset and according to the estimated useful life of each asset as follows:

<u>Description</u>	<u>Depreciation</u>
	<u>Rate</u>
-Buildings	2 %
-Stationeries	20 %
-Furniture and Fixtures	10 % -20 %
-Renovation	20 %

	2004	2005
Fixed assets at cost	3,528,543	4,110, 667
Less: accumulated depreciation	(198, 676)	(771,031)
Net fixed assets	<u>3,329,867</u>	<u>3,339,636</u>

4. LOANS PORTFOLIO (PRINCIPAL)

Loans portfolio (Principal) as of December 31, 2005 amounted to L.E 18,411,209 as following:

<u>Description</u>	<u>2005</u> <u>L.E</u>
- Individual lending -SME	12,018,505
- Group lending -GL	6,392,704

Total	18,411,209
	=====

5. OTHER ASSETS

Other assets as of December 31, 2005, amounted L.E 163,960 as following :

<u>Description</u>	<u>2005</u> <u>L.E</u>
- Petty cash	4,000
-Advances received	95,481
- Deposits with others	43,225
-Advance amounts (suppliers)	16,200
- Other debit balances	124
- Printing store	4,930

Total	163, 960
	=====

6. ACCRUALS

Accruals as of December 31, 2005 amounted to L.E 230, 469 as following :

<u>Description</u>	<u>2005</u> <u>L.E</u>
Accrued expenses	212,399
Social Insurance Authority	445
Tax Authority (withholding tax)	2,932
Tax Authority (salary tax)	183
Tax Authority (stamp)	6
Penalties	14,504

Total	230, 469
	=====

7- INTEREST, FEE EXPENSES ON FUNDING AND BANK CHARGES

Interest and fee expenses on funding and bank charges as of December 31, 2005 amounted to L.E 1,302,695 as following:

<u>Description</u>	<u>2005</u> <u>L.E</u>
SME Cost of fund	959,453
GL cost of fund	331,873
Bank charges	11,369

Total	<u><u>1,302,695</u></u>

8. PERSONNEL EXPENSES

Personnel expenses as of December 31, 2005 amounted to L.E 3,534,536 as following :

<u>Description</u>	<u>2005</u> <u>L.E</u>
-S.M.E employees' salaries & incentives	869,563
-G.L employees' salaries & incentives	785,703
-Other administrative salaries	1,867,086
-Part time employees	12,184

Total	<u><u>3,534,536</u></u>

9. OTHER ADMINISTRATIVE EXPENSES

Other administrative expenses as of December 31, 2005 amounted to L.E 1,130,977 as following:

<u>Description</u>	<u>2005</u>
	<u>L.E</u>
General administrative expenses (S.M.E)	76,893
General & Administrative expenses (G.L)	64,589
Transportation	41,287
Corporate companies	12,117
Stationeries	64,237
Rent	185,085
Maintenance and fixtures	136,115
Consulting fees	94,848
Stamps & other fees	1,352
Telephone & postage	76,117
Utilities, water, gas	21,299
Hospitality	1,687
Advertisements	13,689
Insurance Premium	17,848
Cleaning	47,437
Security	51,590
Other	2,038
Training	222,749

Total	1,130,977
	=====

10. GRANTS [USAID] - AND DONATIONS

Grants and donations as of December 31,2005 amounted to L.E 22,464,635 as following:

<u>Description</u>	<u>2005</u>
	<u>L.E</u>
<u>1- Grants [USAID]</u>	
-Grants for fixed assets & operating expenses	5,938,047
- Grants for training	180,446
- Grants for loans	15,945,864

<u>2- Donations (Not earmarked)</u>	
International Finance Corporation (IFC)	133,689
Private individual donations	246,589
T.C.A Company	20,000

Total	22,464,635
	=====

11. IN-KIND DONATIONS

No in kind donations

12. GRANTS AND DONATIONS ACCOUNTING TREATMENT

Lead Foundation separately records the amounts of the grants and donations from income generated by the financial operations in the income statement

- Grants and donations are recognized when they are received

13. OTHER SERVICES

The Lead Foundation provides financial services only and no other activities are undertaken.

14. INTERNAL LOANS

No loans have been made to board members , staff or their families

15. CLIENT'S DEPOSIT ACCOUNTS

- There are no type of deposits (obligatory /optional) tied to the client's ability to obtain loans..

16 .BANK FACILITIES

Lead obtained bank facilities guaranteed by deposits at a market interest rate .

17. ACCOUNTING POLICIES

Lead Foundation uses the double system as follows :

- a- Expenses are recorded using the accrual basis
- b- Income is recorded on a cash basis

18. FOREIGN CURRENCY GAIN/LOSS

-There is no direct relationships

19. MAINTENANCE OF VALUE

-Lead does not operate in a high inflationary economy and therefore Lead does not use any inflationary accounting methods.

20. MANAGEMENT PLAN FOR MAKING LOAN LOSS PROVISION

Aging of outstanding balance	Provision required
Current	----
1-30 days	---
31-60 days	10%
61-90 days	25%
91-120 days	50%
> 120 days	100%

21. PORTFOLIO QUALITY

<u>Description</u>	<u>2005</u> <u>L.E</u>	<u>Rate</u>
<u>Normal Loans</u>		
Current	18,323,036	99.5%
1-30 days rate	88,173	0.5 %
31-60 days rate	--	--
61-90 days rate	--	--
91-120 days rate	--	--
> 120 days rate	--	--
	--	--
<u>Rescheduled and refinanced loans</u>	--	--
	-----	-----
Total loan portfolio	18,411,209	100 %
	=====	=====

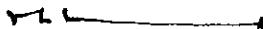
- According to management plan for making loan loss provision there is no portfolio at risk in 2005

22. WRITE-OFF POLICY


-To allow reasonable collection efforts to take place , management only writes off loans after one year from the date of the last unpaid installment.

-Management created a loan loss provision in 2004 in the amount of L.E 4,125 and wrote off this amount during 2005.

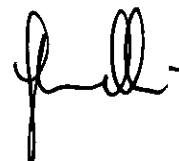
Chairman Board of Directors



Financial Manager


June 18, 2006

Treasurer



Ratios Which Converse the Activities of the Foundation
Year 2005

<u>Sustainability / Profitability</u>	
1-	Return on Equity (ROE) $\frac{\text{Net operating income - taxes}}{\text{Average equity}}$ = - 11 %
2-	Return on assets (ROA) $\frac{\text{Net operating income - taxes}}{\text{Average assets}}$ = -5 %
3-	Operational Self Sufficiency $\frac{\text{Operating revenue}}{\text{Financial expense + loan-loss provision expense + operating expense}}$ = 69 %
4-	Profit Margin $\frac{\text{Net Operating Income}}{\text{Operating Revenue}}$ = - 43 %

<u>Assets/Liability Management</u>	
1-	Yield on Gross Loan Portfolio $\frac{\text{Cash financial revenue from loan portfolio}}{\text{Average Gross Loan Portfolio}}$ = 12 %
2-	Current Ratio $\frac{\text{Short term assets}}{\text{Short term liabilities}}$ = 304 %
3-	Cost of Funding Ratio $\frac{\text{Interest and fee expenses on funding Liabilities}}{\text{Average Funding Liabilities}}$ = 12 %

<u>Portfolio Quality</u>	
1-	<p>P.A.R Ratio Portfolio at Risk</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">Gross Loan Portfolio</p> <p>= 0 %</p>
2-	<p>Write – Off Ratio Value of Loans Written Off</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">Average Gross Loan Portfolio</p> <p>= 0.01 %</p>
3-	<p>Risk Coverage Ratio Loan Loss Reserve</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">Portfolio at Risk</p> <p>There is no portfolio at risk</p>

<u>Efficiency /Productivity During December 2005</u>							
1-	<p>Loan officer Productivity No of active borrowers</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">No of loan officer</p> <p>= 246 borrowers</p>						
2-	<p>Operating Expense Ratio Operating expense</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">Average Gross Loan Portfolio</p> <p>= 16 %</p>						
3-	<p>Cost Per Borrower Operating Expense</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">Average Number of Active Borrowers</p> <p>= L.E 201</p>						
4-	<p>Cost Per Client Operating Expense</p> <p style="text-align: center;">= -----</p> <p style="text-align: right;">Average Number of Clients</p> <p>= L.E 138</p>						
5-	<p>Number of active clients</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Individual lending –SME</td> <td style="text-align: right;">8,735</td> </tr> <tr> <td>Group lending –GL</td> <td style="text-align: right;">30,640</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">39,375</td> </tr> </table>	Individual lending –SME	8,735	Group lending –GL	30,640	Total	39,375
Individual lending –SME	8,735						
Group lending –GL	30,640						
Total	39,375						
6-	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Number of branches</td> <td style="text-align: right;">5</td> </tr> <tr> <td>Number of Loan officers</td> <td style="text-align: right;">160</td> </tr> <tr> <td>Number of administrative staff</td> <td style="text-align: right;">95</td> </tr> </table>	Number of branches	5	Number of Loan officers	160	Number of administrative staff	95
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Number of Loan officers	160						
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