

## Rating Report of BRAC

**Present Rating:**

**Long Term** : AAA  
**Date of Rating:** 30 December 2010  
**Valid Till** : 30 June 2011

**Previous Ratings:**

**Long Term** : AAA  
**Date of Rating:** 18 February 2010  
**Valid Till** : 30 Jun 2010

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**Highlights:**

Micro Finance	2008	June 2010
Districts covered	64	64
No. of VO	293,016	295,507
No. of borrower	6.37 mill	6.24 mill
No of members	8.09 mill	8.36 mill
Loan Portfolio	44,903 mill	44,032 mill
Loan Disbursement (for the year)	84,286.44 mill	75,680 mill
Financial Cost Ratio	8.20%	6.93%
Operational Self Sufficiency	108.80%	116%
ROAA	2.33%	3.62%
Portfolio at Risk (>=30 Days)	7.69%	7.98%
Operating Expense Ratio	10.04%	9.68%

EDUCATION PROGRAM	From inception to June 2010
No. of BRAC Primary school	28,170
No. of BRAC Pre- Primary school currently running	11,553
No of Graduates	4.38 mill
No. of current students of primary school	0.86 mill

Health Program	From inception to June 2010
No. of Health Centers	31
Population Covered	92 mill
No. of Community Health Volunteers	80,000

Human Rights & Legal Services (HRLS)	From inception to June 2010
HRLS Classes Held	153,319
Complaints Received	140,537
No. of Graduates under HRLS	35,53,552

**RATING SCOPE**

Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity nor social impact of the programs of an NGO, although such considerations may affect CRAB's view on credit risk, such as access to capital or likelihood of refinancing.

At the time of rating of BRAC, CRAB did not conduct any social research and survey on its programs. It is not within the purview of rating agency to carry out comprehensive impact study. However, CRAB at the time of rating of BRAC apart from its Micro Finance Operation and Business Enterprises, looked into various impact study of BRAC's Health, Education, Environment and Legal programs and tried to understand how effectively and efficiently BRAC could link its program with its vision, mission and goals. CRAB's credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, and repayment of principal, insurance claims or counterparty obligations.

## **1.0 RATIONALE**

Credit Rating Agency of Bangladesh Limited (CRAB) has awarded “**AAA**” (Pronounced Triple A) rating in the Long Term to BRAC. MFIs rated 'AAA' have extremely strong capacity to meet their financial commitments. 'AAA' is the highest issuer credit rating assigned by CRAB. “**AAA**” rated entities are judged to be of the highest quality, with minimal credit risk. MFIs rated in this category are considered to have the highest capacity for timely repayment of obligations. MFIs rated in this category are characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds. Rating is based on BRAC's large scale of operation; effective and efficient allocation and utilization of resources; contribution to uplift the socio economic condition of the country through education, health services, social and legal awareness with its services to underprivileged, micro credit loan programs for the poor people, strong financial and risk management practices; commendable profitability level and portfolio quality; and strong brand image. The rating considers BRAC's major development works including micro finance operation, education, health, legal & social empowerment, agricultural and environment programs. The rating reflects the excellent position of BRAC in terms of liquidity, internal fund generation, and access to alternative sources of funds. BRAC's governance aspects, managerial factors and financial performance have the enduring support to build its present image to the underprivileged at home and abroad. BRAC's integrated health, finance and education programs are active in 70,000 villages in all of the 64 districts of Bangladesh, reaching an estimated three quarter of the entire population.

BRAC's education programs reached more than 4.38 million children in Bangladesh. Number of primary students in June 2010 is 0.86 million. Up to June 2010, BRAC's number of “Polli Shomaj” reached to 11,830. Number of Human Rights and Legal Services (HRLS) graduates is 3.55 million. BRAC health care has reached over 100 million people of Bangladesh. These achievements are made possible by the work and dedication of 80,000 community health volunteers up to June 2010. Under Tuberculosis program 0.32 million patients treated up to June 2010. Under IMNC project up to June 2010, around 9.45 million (cumulative) pregnant women received 4 ante natal cares. Under Manoshi project 5.30 million women received 3 ante natal cares.

BRAC has provided emergency food, shelter assist “Cyclone Aila” hit Bangladesh low lying coastal belt on 25 May 2009. Under BRAC WASH program it has provided more than 8.5 million people with safe water supply services in 2009. Moreover, BRAC has ensured visits by health workers, dig pond, sinking deep tube wells, and set up desalination plants, constructed 2,400 latrines, introduced salt tolerant rice, crab fattening and fish cultivation in the “Aila” hit areas. To minimize the adverse situation, BRAC has kept excess reserve of BDT 164.15 million for cyclone “Aila” victim.

There are some changes in microfinance operations of BRAC in 2009 and 2010. BRAC has complied the requirement of Micro Finance Regulatory Authority Act (MRA), 2006. From 2009 Dabi and Unnoti segments merged together and named “Dabi”. Number of VO member increased to 8.11 million up to June 2010. Total loan disbursement under micro finance program was BDT 75,680 million in 2009. On June 2010 total portfolio of BRAC stood at BDT 44,886 million whereas PaR [ $\geq 30$  Days] stood at BDT 3,581.53 million, which was 7.98% of total portfolio. The loan portfolio growth decreased in June 2010

which was -1.78% compared to portfolio growth of 2008: 24%. Its portfolio yield was 26.63 % in June 2010.

BRAC has social enterprise like Aarong's which net surplus in 2009 stood at BDT 508.64 million registering a 3 year CAGR of 54.85%. BRAC Dairy net surplus stood at BDT 123.95 million registering CAGR of 68.75% during 2007-09. BRAC has investments and is a shareholder of BRAC Bank Limited; Delta Brac Housing Finance Corporation Limited is presently largest specialized housing finance institution in the country. Social enterprises have enabled BRAC to be 73 per cent self-sufficient and only 27 per cent reliant on donor funding.

CRAB believes that BRAC shows its mark to mix revenue generating business with programs through motivations, organizational cultures and resources. The "AAA" rating indicates the sustainability of BRAC's integrated program i.e. health, education, micro finance, environmental & legal aid and enterprises. The rating also reflects the outstanding infrastructure of BRAC i.e. training department, evaluation department, research department, internal audit department, logistics department and computerized micro finance operation which helps BRAC to minimize the operational risk.

## **2.1 INDUSTRY POSITION**

The first generation MFIs that emerged in the 1970s had an explicit social agenda and their focus was on poor segments of the population particularly women. The geographic focus was primarily in the rural areas, but as migration created urban poverty, microcredit programs began to shift their focus on urban lending programs. While some NGOs offer an integrated development approach, including some community development, most NGOs have transformed into microcredit focused NGOs. MFIs are categorized into four major groups, including NGO MFIs, which constitute the large proportion of MFIs, commercial banks with microfinance windows, and government line ministries that have promoted micro credit projects and programs. There is one specialized microfinance bank, namely Grameen Bank. Most of these institutions operate in the rural areas, although several of the larger institutions are now lending in both rural and urban areas. A few institutions specialize in urban microfinance. About thirteen ministries and fifteen divisions of the government of Bangladesh deal with microfinance activities with a cumulative disbursement of US\$1238 million at the end of December 2006. As per Bangladesh Bank statistics for June 2008, the microcredit operations of large microfinance institutions (MFIs) show an overall suitable trend in terms of disbursement and recovery of loans over the last few years (exhibit below). On average, growth of loan disbursement of the four large MFIs, which occupy more than 80 percent of microcredit disbursement and 70 percent of outstanding loans, was 27.8 percent during FY04-FY07. During H2 FY08, total disbursement increased by 26.5 percent over the same period of FY07. This moderate growth was due to relatively high growth in disbursement of BRAC (42.9 percent), followed by ASA (20.1 percent) and Grameen (16.8 percent) while disbursement growth was negative for Proshika. In terms of recovery, the average growth over FY04-FY07 was 27.4 percent, which is consistent with the growth of loan disbursement during the period. During January-June FY08, the growth of overall loan recovery was 25.5 percent higher than during the same period of FY07 due to the high growth of BRAC (57.2 percent), followed by ASA (13.9 percent). The slow down of loan recovery due to two consecutive floods and the devastating cyclone (Sidr) in H1 FY08 required the MFIs to speed up loan recovery during H2 2008. The flow of loans outstanding shows a growth of 20.5 percent in January-June FY08 over the same period of the previous fiscal.

**EXHIBIT 1: MFI Position**

Institutions	(billion Tk)						
	FY04	FY05	FY06	FY07	FY07	FY08	Growth of (ii) over (i)
					Jan.-Jun. (i)	Jan.-Jun. (ii)	
1. Total disbursement	76.0	95.3	129.6	165.4	84.9	107.5	26.5
Grameen Bank	23.4	31.5	45.9	53.7	24.8	28.9	16.8
BRAC	23.3	29.1	37.0	52.7	29.9	42.7	42.9
ASA	26.1	31.9	43.6	55.7	28.7	34.4	20.1
Proshika	3.2	2.8	3.1	3.2	1.6	1.4	-13.0
2. Total recovery	69.9	85.8	116.4	153.0	76.1	95.5	25.5
Grameen Bank	19.8	25.5	37.7	51.2	24.2	25.7	6.5
BRAC	23.2	29.4	37.5	48.1	25.7	40.4	57.2
ASA	23.0	27.7	37.7	50.3	24.5	27.9	13.9
Proshika	3.9	3.2	3.5	3.4	1.7	1.5	-14.6
3. Loans outstanding	49.9	60.8	80.6	98.8	190.8	229.8	20.5
4. Loans overdue	2.4	3.1	3.3	3.7	6.8	11.2	65.8
5. Overdue as percent of outstanding	4.8	5.1	4.1	3.7	7.1	9.8	

Source: *Bangladesh Bank Quarterly*, various issues, Bangladesh Bank.

Macroeconomic goals are achieved through financial regulation and supervision, which ensures the solvency and financial soundness of financial institutions in an economy. There are moral hazard, which brings the regulation and supervision of financial institutions in front. A primary objective of regulation is to provide the client (in particular those making deposits) protection against excessive risks that may arise from failure, fraud, or opportunistic behavior on the part of the institution providing financial services. In the case of MFIs, particularly those where neither the Executive Committees nor the Board of Directors have any substantial investment in the institution, there is a clear moral hazard. The risk to the depositor's savings is greater when they do not have access to the withdrawal of those savings when they perceive that they are at risk.

**EXHIBIT 2: Eligibility Criteria of PKSF**

ELIGIBILITY CRITERIA	As of 30 June 2010	
	Required	BRAC Actual
Cumulative Loan collection Ratio (On Total dues)	95%	99.36%
Loan collection Ratio on Current dues ( on running 12 month basis)	92%-100%	98.33%
Minimum Liquidity Ratio	20%	30.36%
Minimum Current Ratio	1.50	3.13:1
Minimum Capital Adequacy	20%	27.98%
Minimum Debt Service Coverage Ratio	1.25	4.29:1
Minimum Rate of Return on Capital	2%	15.43%

BRAC as a Non government organization is not involved in microfinance program only. It has realized through experience, which people using credit also wanted other services, especially a safe place to save and technical collaboration. BRAC has very important role in providing an array of services not only to micro entrepreneurs but also to others not concerned in a small business through its micro credit program.

**EXHIBIT 3: BRAC AT A GLANCE ON JUNE 2010**

Legal Form	Years of operation	Total Borrowers	Full time Staff	Village Organizations
NGO & MFI	38 Years	5.94 mill	46,979	300,188

**EXHIBIT 4: PROGRAM COVERAGE BY BRAC**

	2008	June 2010
Districts	64	64
Population covered	110 mill	110 mill
Field office	4,584	2,661
Training centers	21	21

**EXHIBIT 5: GROWTH OF MAJOR INDICATORS OF BRAC**

Particulars	2007	2008	2009
Total Asset	54.06%	11.88%	1.44%
Total Loans and Advances	118%	7.56%	-18.19%
Total Income	19.17%	34.84%	13.38%
Total Expenditure	30.09%	34.53%	7.97%

**EXHIBIT 6: MICRO FINANCE PROGRAM: OPERATIONAL HIGHLIGHTS OF JUNE 2010**

Savings of VO members	Loan Portfolio	Cumulative Loans Disbursed	Average Loan Size per Borrower
BDT 18,398 mill	BDT 44,866 mill	BDT 469.457 mill	BDT 22,243

**EXHIBIT 7: BRAC MICRO FINANCE OPERATIONS: KEY FINANCIAL RATIOS OF JUNE 2010**

Capital Adequacy ratio	Portfolio at Risk (>=30 Days)	Financial Cost Ratio	Operational Self Sufficiency	Yield on Portfolio
27.98%	7.98%	6.93%	116.6%	26.63%
Gearing Ratio (x)	Loan Loss Provision Ratio	Funding Expense Ratio	Total Income to Average Assets	Total Expenses to Average Assets
2.92	4.57%	12.79%	24.81%	21.18%
Return on Average Assets	Return on Average Equity	Liquidity ratio	Capital /Asset Ratio	Deposit to Loan Ratio
3.62%	15.43%	11.87%	25.51%	42.32%
NPL Ratio	NPL coverage Ratio	Gross Loan to Total Assets	Operating Expense Ratio	Write Off Ratio
14.33%	77.41%	90.83%	9.68%	2.56%

**Notes:**

- All figures pertain to the organization's microfinance program as on 30 June 2010.
- Active clients refer to those who save with BRAC MFI and attend centre meetings; active borrowers refer to the clients who have loans outstanding. Other income includes transfer from donor funds, interest on STD etc.
- The PAR<sub>30</sub> and PAR<sub>180</sub> figures above are before write-offs in 30 June 2010.
- The loan repayment ratio has been calculated from MIS reports generated by BRAC.
- Dollar conversion rate: USD 1 equivalent BDT 68.0.

**3.1 ORGANIZATIONAL BACKGROUND**

BRAC, a national private development organization, was founded in 1972 by Mr. Fazle Hasan Abed. Mr. Abed was the first Executive Director and now Chairman of BRAC. It is

registered under the Societies Registration Act 1860. Although it was first set up to resettle internal refugees in post-war Bangladesh, BRAC later redesigned its strategies in accordance with its philosophy of poverty alleviation and empowerment of the poor. At present, BRAC has a large number of development programs that cover the areas of health, education, credit, employment and training for the poor people of Bangladesh. BRAC is the major shareholder of BRAC Bank Limited, Delta Brac housing Ltd. BRAC also earns from various income generation projects such as Aarong Rural Craft Centre, BRAC Printers and BRAC Dairy and Food Project, BRAC Tea Estates, and various programs which support enterprises such as poultry farms, feed mills and prawn hatcheries. BRAC render services education, health, micro-credit and training in successful small enterprise development for under privileged people. BRAC has maintained its focus on microfinance and has grown steadily both in terms of outreach and portfolio outstanding. A detail performance analysis of BRAC different segments are given in the following section of this report chronologically. Today, BRAC's integrated health, finance, and education programs are active in 70,000 villages in all of the 64 districts of Bangladesh, reaching an estimated 75 percent of the entire population. Its health programs serve more than 100 million people, its microfinance programs assist more than 8 million members, and its education programs reach more than 1.8 million children.

The organization generates 70 percent income from own financing and 30 percent from Donor of its \$460 million expenditure during 2009. The revenues have allowed the organization to develop, test, and replicate some of the world's most innovative antipoverty programs. BRAC's successes resonate throughout the country and the world. BRAC provide funds to PKSF and PKSF distributes the fund to many NGOs in Bangladesh. BRAC try to use funds from its social enterprises to pilot and spread other types of programs throughout Bangladesh. In "Aarong" Craft Shops where 65,000 rural artisans can work, market and sell their handicrafts and has become the most popular handicraft marketing operation in Bangladesh. Using revenues from 'Aarong", BRAC began testing microfinance and primary education initiatives.

BRAC established the "BRAC Dairy", which primarily purchases and markets the milk that its micro lenders produce. To collect and process the milk for the dairy, BRAC has set up 85 collection & chilling centers across Bangladesh. The "BRAC Dairy" and its milk collection centers employ more than 500 people. In 2009, the project generated BDT 123.95 million in surplus income, which was enough not only to support the workers and dairy farmers, but also to expand operations.

BRAC has high-speed Internet access to get information. So, it partnered with San Francisco- based gNet to create bracNet, which is building Bangladesh's high-speed network from scratch. As with other BRAC-run social enterprises, bracNet is expected to become a sustainable enterprise. BRAC shows that nonprofit organizations can launch social enterprises that work on a large scale. Much of BRAC's success stems from the leadership and expertise of its founder. Not all nonprofits are in a position to mix profits with programs; however, BRAC shows it mark to mix revenue-generating business with program through motivations, organizational cultures, and resources. Social enterprises of BRAC assist to expand its reach, advance their missions, and deepen their capacity to innovate. BRAC's enterprises have allowed the organization to reach the poorest, most isolated villages in Bangladesh with novel, successful programs that address many different needs at once. They also give BRAC independence from donor funding. This financial independence is indeed very compelling, not only for organizations making their

way in the nonprofit world but especially for the clients they serve. Bangladesh is now enjoying such strong economic growth that it could join the ranks of middle-income countries by 2016, according to the World Bank projection.

BRAC's internal audit and financial monitoring department also smoothes the path for sustainable social enterprises. In 2009 the department conducted internal audits in 11,869 cost centers. BRAC has computerized its entire microfinance program making it easier for it to closely monitor all of its loans and curtail ineffective practices.

In recent years, BRAC has expanded into Pakistan, Afghanistan, Liberia, Sierra Leone, Southern Sudan, Sri Lanka, Tanzania, and Uganda. BRAC also has existence in UK and USA. BRAC UK and BRAC USA were created as partners to help and mobilize support for BRAC's international work.

#### **4.1 BRAC EDUCATION**

The BRAC Education Program (BEP) is the fourth phase (2004-09) of an ongoing education program that began in 1985. As of June 2010, 4.38 million children have graduated from the BRAC primary system. Number of primary students in June 2010 is 0.86 million.

**EXHIBIT 8: Features of BRAC Education Program**

<b>School type</b>	<b>Age of entry</b>	<b>% of Girls</b>	<b>Class size</b>	<b>Grades covered</b>
BRAC Primary School	8-10 years	60-65	30-33	I-V (in 4 years)
BRAC Adolescent Primary School	11-14 years	60-65	30-33	I-V (in 4 years)
BRAC Ethnic School	8-12 years	60	22-30	I-V (in 4 years)
Education-Support-Program (BRAC Supported, run by other NGO's)	8-10 years	65-70	30-33	I-III (in 3 years)

#### **Pre-primary school**

In 1997, BRAC launched pre-primary school program by setting up 40 pre-primary schools whereas up to June 2010 BRAC has 26,350 pre-primary schools. Number of graduates from pre primary schools up to June 2010 is 11,553. Around 99% of children who enters the BRAC pre primary school go to mainstream schools.

#### **BRAC Ethnic School:**

BRAC has adapted education program for ethnic minorities starting from 2001. Up to Dec 2009 there is 2,015 EEC schools with more than 49,000 children from 42 ethnic communities of Bangladesh.

#### **Education program for children with special need:**

BRAC has initiated this unit in 2003 where children with special needs can be integrated in the BRAC schools. In 2009, total 53,436 children with mild and moderate disabilities have been provided schooling and services.

#### **Primary schools**

BRAC has initiated to improve education for the under-privileged begin in 1985 by setting up 22 one room primary schools. BRAC has 38,250 primary schools up to Dec 2009. Number of total graduate passed from BRAC Primary Schools up to 2009 was 4.38 million. 97% of BRAC primary students passed standardized test for primary completion. BRAC

has to spend USD\$ 18 for each student per year. Girls now account for 60%-65% of all students. <sup>1</sup>Overall dropout rate was 6.13% and the incidence of dropout was higher among female students.

**EXHIBIT 9:**

<b>Primary school</b>	<b>2008</b>	<b>Sept 2009</b>	<b>Up to June 2010</b>
Currently running	38,250	38,250	38,250
Graduates (In Mill)	3.80	4.11	4.38

Around 118,529 teachers receive training during 2009 on various subjects. The Education Development Unit of BRAC is responsible for updating and revising learning materials and teaching guides.

**Secondary School**

Under the post primary basic education project the secondary education level started in 2001. There are 3 mathematics textbooks for grades 6-8 approved by the National Curriculum & Textbook Board. In 2009 BRAC provided mentoring training to 9,993 students for developing self esteem, leadership quality and capacity development for peer support.

**EXHIBIT 10:**

<b>Category</b>	<b>2008</b>	<b>Sept 2009</b>	<b>Up to June 2010</b>
BEP teachers	65,359	69,932	118,529

**Adolescent Development Program**

The adolescent development program started in 1993 set up for older children. This programs main objective is to improve quality of life of the participant and social awareness of the participant belongs to rural communities. There are 8,600 adolescence development centers during 2009. Members of adolescent clubs performed on a TV talent show in 2009. BRAC has "Gonokendro" which started in 1995 as community libraries as part of the continuing education program. Up to December 2009, BRAC has 2,226 Gonokendro in operation with 944,546 subscribers, 1,085 Gonokendros are equipped with IT facilities, 625 mobile libraries.

**OVERALL ASSESSMENT OF BRAC EDUCATION**

CRAB views the BRAC's education model a good quality due to healthy and motivated students (low dropout rate i.e 5-6% up to 2009), coverage, competent teachers, relevant curriculum, good governance and equitable resource allocation which are the key characteristics of quality education.

**5.1 BRAC HEALTH**

BRAC's health program started its journey from 1972. The main objective behind this program was to reduce mortality among the poor and under-privileged people.

<sup>1</sup> (Reference taken from "Beyond dropout: A study on BRAC primary School", Nov 2010.)



**EXHIBIT 11:**

<b>Essential Health Care</b>	<b>2008</b>	<b>Up to June 2010</b>
Working Districts	64	64
Population Covered (In million)	92	92
BRAC Health Centers	31	31
Malaria total case tested	147,390	173,214
Pregnant women received ANC (In million)	1.35	4.42
Tuberculosis population covered (In million)	88.5	88.5
Community Health Volunteers	74,000	80,000

Until now BRAC health care has reached over 100 million people of Bangladesh. These achievements are made possible by the work and dedication of 80,000 community health volunteers up to June 2010.

**Essential Health Care**

Since 1991, BRAC has initiated the Essential Health Care (EHC) Program particularly for women and children. The program currently reaches a population of over 100 million in rural areas and urban slums in 2009.

**Essential Healthcare for Ultra poor**

BRAC has initiated special program designed to improve the health of ultra-poor families. Different major achievements in 2009 were 1.14 million pregnant women received ante natal care. 126,836 patients received health subsidy in 2009.

**Tuberculosis Control Program**

TB is one of the leading causes of death among adults in Bangladesh, which ranked 6 among 22 high burden TB countries. In 2009, a total of 323,466 patients were examined and treated with TB. (6% donation out of BRAC's total donation in 2009).

**Malaria Control Program**

In 2009 BRAC operates in Moulvibazar and all 3 CHT districts. BRAC "shasthya shebikas" use rapid diagnostic tests identify and treat patients and refer severe cases to the nearest health facilities. Total case tested 173,214. BRAC received 2.36% donation out of its total donation from The Global Fund in 2009.

**Maternal, Neo Natal and Child Health projects**

With the assistance of Govt and UNICEF this health project around 11.25 million patients were covered where 1.14 million patients received 4 ante natal cares, 38,589 women delivered at hospital in 2009.

**Manashi (Urban)**

This project is setting up in phase to serve slum populations in Dhaka, Chittagong, Sylhet, Barisal, Khulna and Rajshahi cities including some semi-urban areas in 2009. One delivery

center covers a population of 10,000 and is staffed by two full time birth attendants supported and supervised by Manoshi midwives and doctors. Up to 2009, 241 delivery centers are in operation.

**Shushasthaya (BRAC Health Centers)**

Started since 1995 these health centers targeted to strengthen community based health care and provide better curative services for low privileged areas. Up to 2009, 31 Shushasthaya are in operations across Bangladesh and concentrated in 11 districts in the central and northern districts of Bangladesh. Still some of Shushasthaya centers have to postpone its services due to unavailability of doctors.

**Limb and brace filling Centers (BLBC)**

There are 2 BLBC center of BRAC which provide low cost, user friendly, quality artificial limbs and braces and physiotherapy to enhance mobility of the disable. In 2009 a total 8,233 patients received different types of services from the center.

**Pilot Initiatives**

Under this pilot initiative it includes Micro Health Insurance Program, HIV/AIDS Program and Nutrition initiatives. These projects were implemented in different districts of Bangladesh. Micro health insurance program is introduced for poorer family access to affordable quality health care.

**EXHIBIT 12:**

<b>PROJECTS</b>	<b>Number of Patients received treatment up to June 2010</b>
EHC (General)	92 mill
MNCH (Rural)	1,12,50,256
Manoshi	56,99,972
Tuberculosis	88.5 million
Malaria	173,214
Shushasthya	31
Reading Glasses for improved livelihood	5.0 million Covered in 5 districts.

**6.1 SOCIAL & LEGAL EMPOWERMENT**

BRAC is a holistic organization which tackles poverty on multiple fronts, one of which is legal empowerment. The Polli shomaj (PS) is organized at the ward level, encompassing 3-4 villages. Membership is now open to all members of the community, not just VO members. Two types of meetings are held bimonthly. The general committee meeting is a platform for discussion, raising awareness, and planning and implementing initiatives. The 11-member executive committee meetings take decisions. The executive committee includes the president, secretary, cashier, and the heads of five committees for services and resources, social injustice prevention, family development, participation in local power structure and social welfare. The executive committee is elected by the general members.

**EXHIBIT 13:**

<b>Particulars</b>	<b>2008</b>	<b>Up to June 2010</b>
No of Polli Shomaj	12,260	11,830
No. of Union Shomaj	838	948
No. of HRLS Graduates	3.50 million	3.55 million

**EXHIBIT 14:**

<b>Rural Institution Building</b>	<b>Up to June 2010</b>
GO-NGO Resources Accessed (through Polli Somaj)	1,547,250
Social Activities Participated/Initiated (through Polli Somaj)	550,854
GO-NGO Resources Accessed (through Union Somaj)	217,018
Social Activities Participated/Initiated (through Union Somaj)	232,688
Polli & Union Somaj Leaders Received Training	58,589
Union parishad member trained	6,147

**Human rights and legal services (HRLS)**

The BRAC HUMAN RIGHTS AND LEGAL SERVICES (HRLS) program is dedicated to promote and protect human rights through legal aid, legal representation and empowerment. By 2009 BRAC HRLS extended its service to over 18 million people in 55 districts. Number of HRLS graduates in cumulative amount from inception to June 2010 is 3.55 million.

**EXHIBIT 15:**

<b>Particulars</b>	<b>Up to June 2010</b>
Human rights & legal education classes held	153,319
Community leaders workshop held	13,382
Complaints received	140,537
Complaints resolved by ADR	75,257
Cases sent to court	22,986
Judgment received in favor	10,860

**BRAC Advocacy and Human Rights Unit (BAHRU)**

BAHRU was established in 2002 with the specific mandate to create wider awareness about the problems of the ultra poor in accessing justice and their human rights. BAHRU activities are of two types: A) Social Communication activities. B) Media Mobilization activities. In 2009 it developed a wide range of advocacy materials to combat gender based discrimination and violence that includes 6 docu dramas, 6 TV commercials and brochure on the high courts judgment on sexual harassment elimination act in educational institutions.

**7.1 ENVIRONMENT**
**Achievements in 2009**

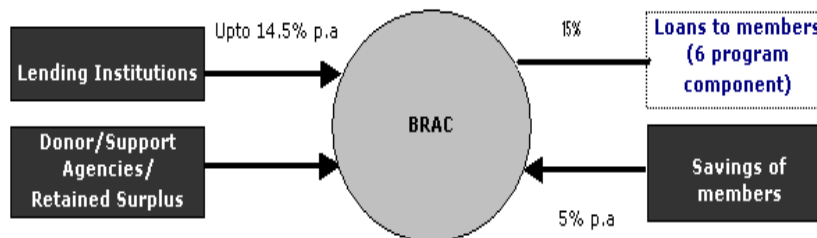
BRAC has provided emergency food, shelter assist "Cyclone Aila" hit Bangladesh low lying coastal belt on 25 May 2009. Under BRAC WASH program it has provided more than 8.5 million people with safe water supply services in 2009. Moreover, BRAC has ensured visits

by health workers, dig pond, sinking deep tube wells, and set up desalination plants, constructed 2,400 latrines, introduced salt tolerant rice, crab fattening and fish cultivation in the “Aila” hit areas.

**8.1 MICRO FINANCE OPERATION (MFO)<sup>2</sup>**

Credit operations of BRAC are carried out through a Revolving Loan Fund (RLF). The sources of RLF are retained earnings, Donors’ funds, group savings, loans from banks and PKSF and recently from securitization of micro credit receivables. BRAC takes loan from PKSF at 7% and 6%-15% from other financial institution. Loans realized are credited to and form a part of the RLF for extending further credit. This process of lending, recovery, and further lending ensures that credit facilities are eventually available to all Village Organization (VO) members. Frequent borrowing and payments allow the borrower to take higher loans. The flow of funds to and from the organization is illustrated in the following exhibit:

**EXHIBIT 16: Fund Flow**

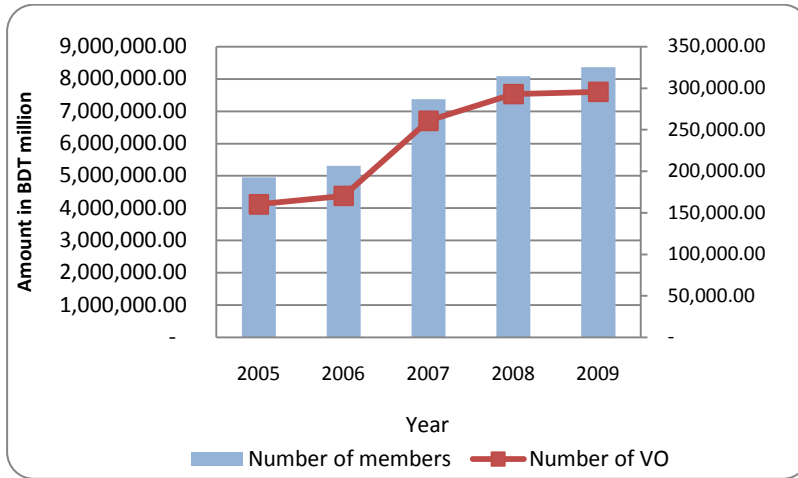


**VILLAGE ORGANIZATION (VO)**

The Village Organization (VO) is the association of poor, landless people that come together with the assistance of BRAC to try and improve their socio-economic position. BRAC opens Area Office through conducting door-to-door survey to identify the target population of the area. Generally the target area ranges within a 5-6 km radius of the area office. The staff members of BRAC give orientation at the time of VO formation and each VO is sub divided into small groups comprising five members with a leader. The VO’s have a management committee consisting of an elected chairperson, a secretary, a treasurer and leaders of the small groups. Normally there are 30-40 members in a VO. Once a VO has a minimum of 20 members, activities may start. Aside from microfinance, these VOs offer a gateway for members to BRAC’s other interventions in health, education and social development. To better serve the diverse groups, the program uses a “credit ladder” approach and has developed targeted financial services at each tier. The Microfinance Program covers all 64 districts of Bangladesh with its 293,016 Village Organizations. The programs are designed for 3 segments of poor people, viz. extreme poor, moderate poor and vulnerable poor, with different products for each class. In the Exhibit 17, movement of BRAC Village Organizations and members trend from FY05 to FY09 is plotted. It is seen that VO has reached at 295,507 Village Organization (VO) with 8.36 million members having 3.3% growth.

<sup>2</sup> BRAC’s financial statement prepared in compliance with the requirement of Micro Finance Regulatory Authority Act (MRA), 2006: The Financial Statements of BRAC micro finance have been prepared for the fiscal year 2009-2010.

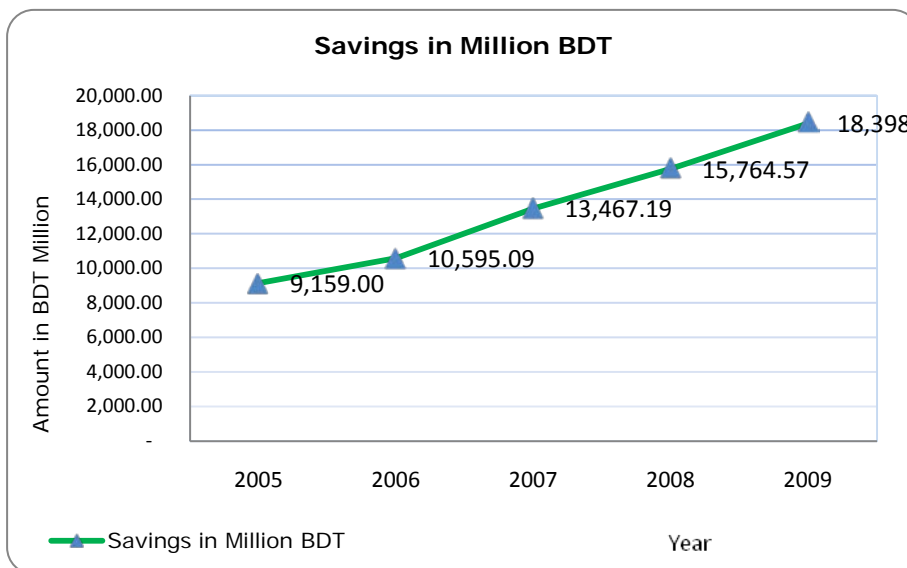
**EXHIBIT 17:**



**MICRO CREDIT SERVICES**

**Savings:** BRAC has 4 types of savings deposit namely (a) Own savings (b) Compulsory savings (c) Monthly savings (d) Term deposits, with a view to facilitating and encouraging savings by people in rural areas. The average rate of interest paid in respect of savings deposits by VO members was 5%-10% per annum. **Own savings:** On an average every VO members are required to save minimum BDT 5 every week. The amount to be deposited weekly is fixed by the VO members at the beginning meeting of the year. A member may deposit a maximum amount of BDT 20 per week. **Compulsory savings:** When loans are disbursed to VO members, 5% of the loan sanctioned is deducted at source at inception and recorded under "saving deposits" of the VO member loan. This deducted amount is considered as "deposit against loan disbursed". The interest rate for the savings is 5%. **Monthly savings:** Each VO members can save for 3 years, 5 years, 8 years and 10 years. The monthly savings varies between BDT 100 to BDT 1000. **Term deposits:** Each VO members can save 1 to 10 years for a fixed time period. The amount will be between BDT 10,000 to BDT 100,000.

**EXHIBIT 18:**

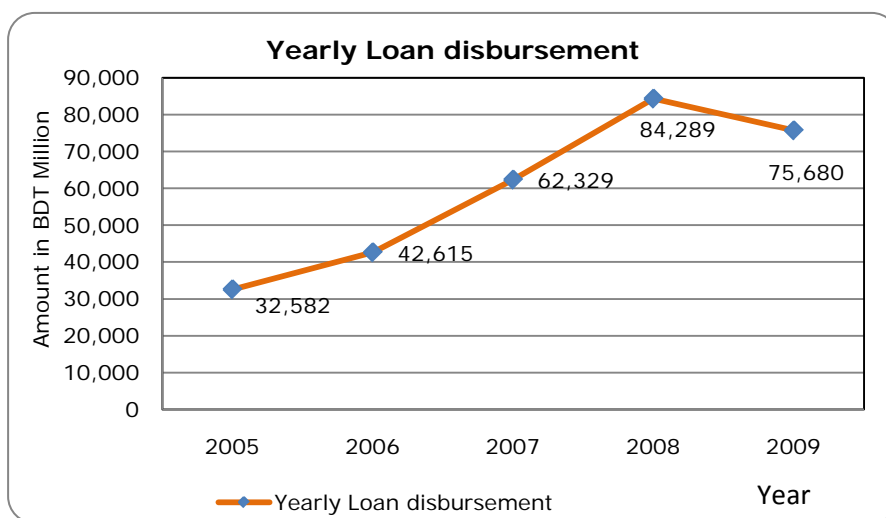


The Exhibit 18 reflects the upper trend of savings indicating effective savings mobilization efforts of BRAC, which reached at BDT 18,398 million by the end of December 2009, registered a growth of 17%.

**CREDIT PROGRAM**

BRAC provides credit to its VO members to initiate different income generating activities. Loans to VO members have to bear Annual service charge (a) General micro credit 15% flat (b) Agricultural loan 10% flat (c) Agro business 13% flat (d) Housing loans 10% flat. Repayments of loans are made in weekly or monthly installment.

**EXHIBIT 19:**



**LOANS PRODUCTS:** From 2009 Dabi and Unnoti segments merged together. Now BRAC has two segments one was named as “Dabi” (combining Dabi and Unnoti) and another loan product was Progoti.

**EXHIBIT 20:**

Credit Ladder	Definitions of Target Group	Terms & Conditions/ Prerequisites	Product Details
Dabi	<p>Dabi targets women from households:</p> <ul style="list-style-type: none"> <li>That own no more than 1 acre of land (including homestead).</li> <li>That earns their living by selling their manual labor.</li> <li>That lives permanently in the area.</li> </ul>	<p>Dabi members must</p> <ul style="list-style-type: none"> <li>Attend weekly VO members regularly.</li> <li>Save regularly.</li> </ul> <p>Not be related with other NGOs.</p>	<ul style="list-style-type: none"> <li>Loan sizes range between BDT 7,000-60,000.</li> <li>Interest rate: 12.50% - 15% flat.</li> <li>Repayment: 46 equal weekly installments over a period of 1 year.</li> </ul>
Progoti	<ul style="list-style-type: none"> <li>Progoti targets men and women who operate existing micro enterprises and are looking to expand.</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>Are Dabi graduates or other looking to start a micro enterprise</li> </ul>	<p>Progoti members must</p> <ul style="list-style-type: none"> <li>Have good entrepreneurial skills.</li> <li>Open a bank account in order to receive their loan.</li> </ul>	<ul style="list-style-type: none"> <li>Loan sizes range between BDT 50,000-300,000.</li> <li>Service charge: 12.50% - 15% flat.</li> <li>Loan terms: 12, 18, and 24 months.</li> <li>Repayment: equal monthly installments.</li> </ul>

BRAC Micro finance client dropout rate has improved over the years. During 2009 it was only 1%. New VO member entered 104,536 and drop out member was 54,451 in 2009. Effective rate of interest on loan to VO members are i) Housing Loan 10%. ii) Agriculture Loan 13%. iii) Agro business 23%. vi) General micro credit 26%.

## FINANCIAL ANALYSIS

The indicators presented in this report are categorized into five main classes: portfolio quality, efficiency and productivity, financial management, profitability and sustainability. There are other aspects like performance of micro-finance institutions; various important indicators are taken together, provide a reasonable overview of the performance, risk and financial condition of BRAC.

### PORTFOLIO QUALITY

#### Portfolio at Risk (PaR)

For BRAC, a micro finance institution, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial. The most widely used measure of portfolio quality in the micro finance industry is Portfolio at Risk (PaR), which measures the portion of the loan portfolio "contaminated" by arrears as a percentage of the total portfolio. The number 30 and 180 indicate days of arrear above or equal to the indicated days.

**EXHIBIT 21:**

Particulars	2007	2008	June 2010
<b>Portfolio Growth</b>	49.51%	24.06%	-1.78%
<b>PaR &gt; = 30 Days Growth</b>	2.15%	5.44%	7.98%

It is seen from the exhibit 21 that as on 30 June 2010 total loan portfolio of BRAC stood at BDT 44,592 million whereas PaR [ $\geq 30$  Days] stood at BDT 3,581 million, which was 7.98% of total portfolio. The loan portfolio growth decreased in June 2010: -1.78% compared to portfolio growth (FY 08: 24.06%). Portfolio risk amount shows a mix trend over the last 3 years. In the exhibit 21 PaR [ $\geq 30$  Days] and PaR [ $\geq 180$  Days] as well as PaR [ $\geq 30$  Days] and PaR [ $\geq 180$  Days] after adjusting renegotiated loans is calculated. Late loans have been treated as Renegotiated loans. Loans, which remain outstanding after one month of their maturity period, are considered as late loans. The Renegotiated loan amount is included in loss loan amount.

**EXHIBIT 21(a):**

Ratio	2008	June 2010
PaR $\geq 30$ Days	4.05%	4.36%
PaR $\geq 180$ Days	1.52%	3.60%
<b>Includes Renegotiated loan</b>	<b>2008</b>	<b>June 2010</b>
PaR $\geq 30$ Days	7.69%	7.98%
PaR $\geq 180$ Days	5.16%	7.21%

However, decreased loan growth on 30 June 2010 as well as arrears occurred due to fluctuating income of the micro credit borrowers directly contributes to the increase of Portfolio at Risk.

**EXHIBIT 22:**

Amount in BDT mill

<b>Statement of Loan Outstanding on 30 June 2010</b>			
<b>Loan classification</b>	<b>Outstanding</b>	<b>%</b>	<b>Provision</b>
Standard	38,497.43	85.77	1,154.92
Watch list	2,807.45	6.25	140.37
Substandard	344.60	0.77	68.92
Doubtful	1,012.42	2.26	759.32
Loss	2,224.51	4.96	2,224.51
Additional provision AILA			164.15
Additional 15 provision on DABI			220.56
<b>Total</b>	<b>44,886.40</b>	<b>100.00</b>	<b>4,732.75</b>

From the Exhibit 22 it shows that proportion of watch list category has increased. Loan loss reserve amount was more than required reserve. Portfolio at Risk in June 2010 increased slightly from 2009. Another crucial aspect in assessing portfolio risk is related to the practice of restructuring and refinancing loans. The following ratios in exhibit 23 indicate a declining trend in and it is above 1.00%.

**EXHIBIT 23:**

	<b>2008</b>	<b>June 2010</b>
<b>Renegotiated Ratio</b>	3.64%	3.62%

From the Exhibit 23(a) it is understood that 85.77% of the portfolio is free of any overdue installments. 1 - 4 installment overdue amounts are 6.25% of the portfolio. The rest 7.98% of the portfolios fall under 5-100 installment overdue.

**EXHIBIT 23(a): Ageing Analysis**

<b>Ageing</b>	<b>Jun-10</b>	<b>%</b>
Past due 0 installment	38,497,428	85.77%
Past due 1-4 installment	2,807,446	6.25%
Past due 5-12 installment	344,598	0.77%
Past due 13-25 installment	1,012,420	2.26%
Past due 51-100 installment	2,224,507	4.96%
<b>Total</b>	<b>44,886,399</b>	<b>100%</b>

**PROVISIONING AND RESERVE**

Provision Expense Ratio gives an indication of the expense incurred by BRAC to anticipate future loan losses.

**EXHIBIT 24:**

	<b>2008</b>	<b>June 2009</b>	<b>June 2010</b>
<b><sup>3</sup>Provision Expense Ratio (PER)</b>	3.55%	8.75%	7.69%

The provision expenses ratio increased from 3.55% in 2008 to 7.64% in June 2010, showing that BRAC has kept proper reserve balancing its portfolio quality. In the Exhibit 23(a), principal outstanding of loan portfolio of BRAC as on 30 June 2010 is categorized based on aging as mentioned above. The best practice rate of provision for each category as well as required provision is also calculated.

<sup>3</sup> Provision expense ratio = Loan loss provision expense /Average gross portfolio.



**EXHIBIT 25:**

Particulars	Amount in BDT Million
<b>Current Loan Loss Reserve as on 30 June 2010</b>	<b>4,945.79</b>
Required Loan Loss Reserve ( As per Best Practice)	4,732.75
Excess Reserve (BRAC Current Loan Loss Reserve over the Required Provision of Best Practice )	213.04
<sup>4</sup> Excess as % of Current Loan Loss Reserve	4.31%
<sup>5</sup> Excess as % of Loan Portfolio	0.47%

It is found from the Exhibit 25 that BRAC current loan loss reserve is 4.31% higher than required (Best Practice basis) loan loss reserve and the excess is 0.47% of loan portfolio. The loan loss reserve ratio reflects accumulated provision expenses (minus write-offs), which increases to 11.09% in 30 June 2010 from 8.54% in June 2009.

**EXHIBIT 26: Required Provision Calculation**

Loan classification	Days in Arrear	Rate of provision	Principal Outstanding on 30-Jun-10	Required Provision
Amount in BDT Million				
Standard	Current	3%	38,497.43	1,154.92
Watch List	1-30 days	5%	2807.45	140.37
Substandard	31-180 Days	20%	344.60	68.92
Doubtful	181-350 Days	75%	1,012.42	759.32
Loss	Over 350 Days	100%	2,224.51	2,224.51
Additional provision for AILA				164.15
Additional 1% provision for DABI				220.56
<b>Total</b>			<b>44,886.40</b>	<b>4,732.75</b>

**EXHIBIT 27:**

	2008	June 2009	June 2010
<sup>6</sup> Loan Loss Reserve Ratio	7.50%	8.54%	11.09%

However as mentioned earlier, BRAC keeps excess reserve corresponding to its aging of portfolio.

**RISK COVERAGE RATIO**
**EXHIBIT 28:**

	2008	June 2010
<sup>7</sup> Risk Coverage Ratio	97.59%	138.09%

The Risk Coverage Ratio is calculated by dividing loan loss reserves by the outstanding balance on arrears over 30 days. This measure shows that in June 2010 it is 138.09% of the Portfolio at Risk is covered by actual loan loss reserves. The reserve ratio has

<sup>4</sup> Excess reserve / current loan loss reserve.

<sup>5</sup> Excess reserve / Gross loan portfolio.

<sup>6</sup> Loan loss reserve ratio = loan loss provision/ loans to members.

<sup>7</sup> Risk coverage ratio = Loan loss reserve / (Outstanding loans on arrear + refinance loan).

increased. For any institutions with a very high coverage (75% to 100%) is a prudent measure to combat future downturns in the economy or to prevent poor performance of the portfolio. The Risk Coverage Ratio is analyzed in conjunction with Portfolio at Risk and Write-offs, since all three are interdependent. A PaR [ $\geq 30$  Days] after adjusting renegotiated loan of 7.98% of loan portfolio on June 2010 cannot be termed as safe because loans are not overdue by only a few days. Still write-offs loans reduce Portfolio at Risk in quicker way.

### WRITE-OFF POSITION

Generally loans are written off twice a year i.e July and December. Any collections realized from loans previously written off are credited to the statement of income and expenditure.

**EXHIBIT 29:**

	2008	June 2009	June 2010
<sup>8</sup> Write-Off Ratio	1.61%	6.58%	2.56%

The Portfolio at Risk (PaR  $\geq 30$  days) ratio from 2008 to 2010 hasn't increased so high due to write-off loan. If BRAC write-off loans which are overdue less than 350 days, than PaR  $\geq 30$  (before adjusting renegotiated loan) would not increase to 4.36% in June 2010 from 4.05% in 2008.

### EFFICIENCY AND PRODUCTIVITY

Efficiency ratio provides the best indicator of the overall efficiency of BRAC.

**EXHIBIT 30:**

	2008	June 2009	June 2010
<sup>9</sup> Efficiency Ratio	16.96%	15.41%	15.40%
<sup>10</sup> Operating expense ratio	11.02%	9.87%	10.64%

The asset size of BRAC stands at BDT 49,095 million on 30 June 2010 (30 June 2009: BDT 49880 million) indicates its large size as a result economies of scale diminishes rapidly and other factors become more important. Loan size has a more decisive impact on efficiency than scale, particularly when average loan size is low compared to other FIs. Average loan size of the two programs of BRAC is as follows: Dabi BDT 14,255 and Pragati BDT 137,328. Total outstanding loan as of 30 June 2010 is BDT 44,886 million, which disbursed to 8.36 million members. BRAC'S operating expense ratio is 10.64% upto June 2010 (June 2009: 9.87%) indicates good efficiency.

**EXHIBIT 31:**

	2008	June 2009	June 2010
Borrower per Staff	398	415	389

This ratio indicates good performance of credit staff and efficiency of BRAC methodology.

### OTHER INDICATORS

On an average BRAC incurred 6.38% cost for BDT 100.00 money lent (average 7.35% cost for BDT 100.00 money lent in 2006). Average cost per loan made is BDT 795.89 and

<sup>8</sup> Write off ratio = Write off loan / Average gross loan

<sup>9</sup> Efficiency ratio = Financial cost of operation / Total long term liabilities

<sup>10</sup> Operating expense ratio = Operating expense / Average Gross loan

portfolio per credit staff was BDT 1.77 million. (Average cost per loan was BDT 645.42 and portfolio per credit staff stood at BDT 1.25 million in 2006).

**EXHIBIT 32:**

	2008	June 2009	June 2010
<sup>11</sup> Cost per Unit of Money Lent	5.3%	5.50%	6.38%
<sup>12</sup> Cost Per Loan Made	881.97	678	787
Portfolio Per Credit Staff (in million)	2.80	2.94	2.92

The trend of cost per unit of money lent indicates that BRAC achieves efficiency through controlling cost in terms of utilization of money. However, Cost per loan made shows a marginal increased trend in 2010. At the same time, the Portfolio per Credit Staff ratio indicates that efficiency level of credit staff is steady.

**FINANCIAL MANAGEMENT**

The financial cost ratio presented in the exhibit 33 is calculated by dividing interest and fee expenses on funding liabilities by the period average gross loan portfolio. This ratio measures the total interest expenses incurred by BRAC to fund its loan portfolio.

**EXHIBIT 33:**

	2008	June 2009	June 2010
<sup>13</sup> Financial expense Ratio	8.20%	8.24%	6.93%

The difference between the portfolio yield and the financial expenses ratio is the net interest margin. This ratio is not the institution's credit spread, nor the average interest rate at which it borrows. Rather, this measure is used to determine the minimum lending rate BRAC must charge in order to cover its costs. The minimum lending rate is determined by adding the Financial Expense Ratio, Provision Expense Ratio and Operating Expense Ratio. As of June 2010, Financial Expense Ratio is 6.93%, Provision Expense Ratio is 7.69% and Operating Expense Ratio is 10.64% through these ratios minimum lending rate for BRAC in 2010 can be calculated which would be (6.93% + 7.69% + 10.64%) = 25.26%.

**EXHIBIT 34:**

BRAC Capital Structure	Amount BDT Mill	%
Debt	17,702.12	36.06%
Savings	18,871.81	38.44%
Capital Fund	12,522.03	25.51%
<b>Total</b>	<b>49,095.96</b>	<b>100.00%</b>

BRAC finances itself primarily through debt or through equity is placed in the exhibit 34(a). The funding structure of BRAC Micro Credit function as of June 2010 is given where 31.23% of its portfolio is financed through term loan and 38.44% is from savings mobilization. The sign of leverage mix keep the financial expense ratio at minimum.

<sup>11</sup> Cost per unit of money lent = Operating cost / Loan disbursed.

<sup>12</sup> Cost per loan made = Operating cost / Number of loan made

<sup>13</sup> Financial expense ratio = Financial expense / Average asset

**EXHIBIT 34(a):**

<b>Funding structure June 2010</b>		
	<b>Amount in BDT Million</b>	<b>%</b>
<b>Current Liability</b>		
Savings Deposit VO members	3,772.34	8%
Term loan	8,704.26	18%
Other debt	1,815.10	4%
<b>Sub Total</b>	<b>14,291.70</b>	<b>29.11%</b>
<b>Long Term Liability</b>		
Savings Deposit VO members	15,099.47	31%
Term loan	6,630.40	14%
Securitized financing	552.36	1%
<b>Sub Total</b>	<b>22,282.23</b>	<b>45.39%</b>
<b>Capital fund</b>		
Donor Fund	1,999.44	4%
Retained Surplus	10,522.59	21%
<b>Sub Total</b>	<b>12,522.03</b>	<b>25.51%</b>
<b>Capital &amp; Liabilities</b>	<b>49,095.96</b>	<b>100%</b>

Up to June 2010 BRAC reliance on debt funding is little bit higher than savings mobilization. BRAC's financial ratio yet remains low due to low cost savings mobilization efforts from its members. However, expansion of micro finance operation leads the organization to increase its leverage position further.

**LIQUIDITY POSITION**

The liquidity ratio indicates BRAC's ability to meet short-term liabilities and unforeseen expenses.

**EXHIBIT 35:**

	<b>2008</b>	<b>June 2009</b>	<b>June 2010</b>
<sup>14</sup> <b>Liquidity Ratio</b>	6.78%	8.34%	11.87%
<b>Liquid Assets to Total Assets</b>	5.36%	6.55%	8.84%

From BRAC's liquidity ratio during last two years indicates that it has developed the way of accurately predicting cash needs. Though the ratios are below 20% but are not a cause of concern since BRAC maintains open credit lines with commercial banks from which they may be able to draw freely. As of June 2010, it has 63 credit line facilities with different public and private commercial banks. Term loan outstanding on 30 June 2010 is BDT 15,334 million. There is another important measure of liquidity measuring the percentage of total assets supported by fully liquid assets (cash). Most MFIs hold very little cash, as most assets are in productive use.

<sup>14</sup> Liquidity Ratio = Cash and cash equivalents / (Members Savings + Total Borrowings)

**LEVERAGE AND OTHER POSITION**

As BRAC is developing and maturing, its' leverage ratio slightly decreases which reached at 2.92 in June 2010.

**EXHIBIT 36:**

	2008	June 2009	June 2010
<b>Total Liability/ Equity</b>	3.77	3.65	2.92
<b><sup>15</sup>Capital Adequacy Ratio</b>	22%	23%	27.98%

In fact, BRAC generally would be able to access commercial sources of funds and therefore achieve much higher Debt than other MFIs, which may be three to five times of its equity. Decrease in debt funding will put down pressure on BRAC's margin.

**EXHIBIT 37:**

	2008	June 2009	June 2010
<b><sup>16</sup>Savings Outstanding Ratio (SOR)</b>	35.2%	37.42%	42.32%

Savings Outstanding Ratio (SOR) BRAC's efficiency in savings mobilization from its VO members and marked as strength of the institution. BRAC's ability has increased to fund its load from its savings.

**EXHIBIT 38:**

	2008	June 2009	June 2010
<b>External Loan to Savings Deposit</b>	133.39%	122.42%	81.26%

External Loan to Savings Deposit indicates dependency on volatile external loans rather than stable source (deposit). As of June 2010, the ratio was 81.26% trend indicates that BRAC is dependent lesser on volatile external sources. Around 32% of its liabilities consist of long-term funding; a long-term debt into capital structure obviously represents less of a risk, than short-term lines of credit would. Capital Adequacy Ratio of BRAC is 27.98% in June 2010 indicates stable capital adequacy level which reduces overall risk of the lenders/ depositors to the BRAC. The similar message could be derive from BRAC's MF Debt Service Coverage Ratio, which stood at 4.29:1 times in June 2010.

**PROFITABILITY**

**EXHIBIT 39:**

	2008	June 2009	June 2010
<b>Return on Average Equity</b>	11.17%	18.30%	15.43%

BRAC is a non-profit organization, the ROAE is used here as a proxy for commercial viability. ROAE of BRAC MFI increased in June 2009 due to higher surplus income than June 2010.

**EXHIBIT 40:**

	2008	June 2009	June 2010
<b>Return on Average Asset</b>	2.33%	3.93%	3.62%

It can be marked that reduction in profitability in June 2010 was due to cut off lending rate, increased provision and operating expenses as well as leverage position. As an MFI, it is desirable to increase profitability by cost control measures (i.e. increase productivity, reduces transaction costs, reduces cost of fund etc.) and improve portfolio quality. In June 2010 BRAC's total administrative cost increased only 8% over June 2009.

<sup>15</sup> Capital Adequacy ratio = Total capital fund / (Total assets – cash & banks)

<sup>16</sup> Total savings / Total principal outstanding.

**EXHIBIT 41:**

	<b>2008</b>	<b>June 2009</b>	<b>June 2010</b>
<sup>17</sup> <b>Average Portfolio Yield</b>	25.4%	26.01%	26.63%

Portfolio Yields measures Indicates BRAC’s ability to generate cash from interest, fees, and commissions on its gross loan portfolio. In June 2010 average portfolio yield slightly increased to 26.63% as the affect of increased service charge on loan and -0.236% growth in average gross loan. In total, Portfolio Yield shows BRAC’s receives as interest payments on its loans.

**SUSTAINABILITY**

The following sufficiency ratios capture the sustainability of BRAC’s micro credit operations.

**Operating Self Sufficiency**

Operating self-sufficiency ratio of June 2010 stood at 116.63% (2008:108.8%). It shows the ability of BRAC to cover costs of operations with internally generated income. BRAC earned 116.63% revenue to cover the organization costs.

**Financial Self Sufficiency**

The financial self-sufficiency ratio of BRAC stood at 107% up to June 2010 (2008:100%), which indicates, enough revenue is earned to cover all the operating, financial and loan loss expenses as well as to maintain the value of the equity and quasi equity in BRAC in relation to inflation.

**Portfolio Analysis**

BRAC’s Current Loan Portfolio consists of two programs namely: (i) “Dabi” Program and (ii) “Progati” Program. (Mentioned in Exhibit 20). BRAC extended loans over 8.36 million borrowers. The loan amount involves relatively insignificant individual loans and a fair degree of homogeneity. Thus the loan has common product and control characteristics. Loan Portfolio can be segregated in terms of (a) Geographic distribution (b) Grouping of micro credits for (i) the mainstream rural poor; (ii) the urban poor; (iii) the hard core poor; and (iv) micro entrepreneurs (c) Sectoral distribution and (d) Activity wise distribution (BRAC’s schematic codes for various activities).

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<sup>17</sup> Average Portfolio Yield = Service charge on loan/Average Gross Loan

**EXHIBIT 42: Loans disbursed for 2009-2010 and saving products and its details for 2009-2010.**

Jan 2009 – Dec 2009	Dabi	Unnoti	Progoti	Total	2009
Loan Disbursement	37,562,104,900	9,394,560,000	28,724,092,000	75,680,756,900	
Loan Outstanding	20,795,734,155	5,699,144,896	17,537,070,266	44,031,949,317	
Savings Deposit	12,403,599,028	2,571,685,562	3,423,333,258	18,398,617,848	
Active borrower	5,229,311	767,644	244,373	6,241,328	
Average loan size(accounts)	11,298	20,420	121,751	-	
Average loan size(BCC)	12,115	20,484	125,636	-	
Jan 2010 – June 2010					2010
Loan Disbursement	23,044,247,600	-	15,705,406,000	38,749,653,600	
Loan Outstanding	26,501,635,501	-	18,384,764,515	44,886,400,016	
Savings Deposit	15,477,858,230	-	3,393,953,366	18,871,811,596	
Active borrower	5,701,718	-	239,830	5,941,548	
Average loan size(accounts)	13,407	-	133,848	-	
Average loan size(BCC)	14,255	-	137,328	-	

**GROUPING OF MICRO CREDIT LOANS:**

BRAC's total micro credit program could be grouped under four components. In the following table component wise loan amount along with its portion in terms of percentage form is pictured which is self-explanatory. However, it is seen that Rural Micro Credit program accounts for 55.45% in June 2010, which was around 65.03% in 2007.

**EXHIBIT 43: Component wise Loan Portfolio**

Components Wise	Amount in BDT Million	%
Rural Micro Credit Borrowers	24,890.73	55.45%
Urban Micro Credit Borrowers	1,125.70	2.51%
Hard Core Poor Borrowers	485.21	1.08%
Micro Entrepreneurs Borrowers	18,384.77	40.96%
<b>Total</b>	<b>44,886.40</b>	<b>100%</b>

The loan components are classified as Current Portion, Regular, Non Performing Loan and Renegotiated loan in exhibit 44. It showed component wise loan break up in actual as well as in percentages of total portfolio i.e. BDT 44,886.40 million is presented, which gives us an insight about the portfolio quality of BRAC Micro finance operation.

**EXHIBIT 44: Classification of Loan Portfolio**

Loans to VO members	Rural Micro Credit Borrowers	Urban Micro Credit Borrowers	Hard Core Poor Borrower	Micro Entrepreneurs Borrowers	Total
Current Portion	22,701.53	955.80	412.39	17,307.58	<b>41,377.30</b>
Regular	127.82	-	-	344.66	<b>472.48</b>
Non Performing Loan	869.14	52.81	24.00	173.90	<b>1,119.85</b>
Renegotiated Loan	1,031.48	66.36	33.98	490.90	<b>1,622.72</b>
Service charge receivable	-	-	-	-	<b>294.05</b>
<b>Total</b>	<b>24,729.97</b>	<b>1,074.97</b>	<b>470.37</b>	<b>18,317.04</b>	<b>44,886.40</b>

**EXHIBIT 44(a):**

Loans to members	Rural Micro Credit Borrowers	Urban Micro Credit Borrowers	Hard Core Poor Borrower	Micro Entrepreneurs Borrowers	Total
Current Portion	50.58%	2.13%	0.92%	38.56%	<b>92.18%</b>
Regular	0.28%	0.00%	0.00%	0.77%	<b>1.05%</b>
Non Performing Loan	1.94%	0.12%	0.05%	0.39%	<b>2.49%</b>
Renegotiated Loan	2.30%	0.15%	0.08%	1.09%	<b>3.62%</b>
<b>Total</b>	<b>55%</b>	<b>2.39%</b>	<b>1.05%</b>	<b>40.81%</b>	<b>99.34%</b>

**Sector wise micro credit loans portion**

In the following exhibit 45, total portfolio composition (Net of Provision) is divided in terms of sector. It is found that in 30 June 2010, 10.34% of its total loan portfolio is in agricultural sector which was 14% in 2008. Due to high arrears in Rural Trading sector loan disbursement decreased to 1.22% which was 43.51% in 2007. BRAC operates in 64 districts of Bangladesh and average concentration of loan disburse of each district is 1.56% in June 2010 of total portfolio.

**EXHIBIT 45: Sector wise Portfolio Position**

Sector	June-10	
	Amount in BDT mill( Net of Provision)	%
<b>Agricultural</b>	4,641.33	10.34%
<b>Cottage Industry</b>	61.74	0.14%
<b>Fisheries</b>	95.25	0.21%
<b>Food Processing</b>	1,175	2.62%
<b>Health</b>	18.67	0.04%
<b>Housing</b>	1.46	0.00%
<b>Livestock and Poultry</b>	443.91	0.99%
<sup>18</sup> Miscellaneous	35.57	0.08%
<b>Rural trading</b>	549.44	1.22%
<b>Rural Transport</b>	17,929.82	39.94%
<b>Sericulture</b>	385.54	0.86%
<b>UDP</b>	1,125.70	2.51%
<sup>19</sup> MELA	18,384.77	40.96%
<b>Services</b>	38.53	0.09%
<b>Total</b>	<b>44,886.40</b>	<b>100%</b>

Maximum and minimum concentration of portfolio was 7% in Dhaka districts and 0.2% in Bandarban district. The portfolios are well diversified in terms of program (program diversification), area office (geographical diversification), sector (sectoral diversification) and activity (activity diversification). BRAC has kept sufficient provision to absorb the losses in case of entire delinquent portfolio remain un-recovered.

**Asset Liability Matching**

In the Exhibit 46 Asset Liability matching of different maturity ladder for the total balance sheet position of BRAC on 30 June 2010 is depicted. In the case of all balance sheet position, it is seen that up to 12 months bucket, there was positive gap. Positive gap

<sup>18</sup> It is the practice of BRAC that any loan that does not fall under the above mentioned sectors are considered miscellaneous sector).

<sup>19</sup> Micro enterprise lending assistance



implies strong liquidity position of BRAC. Only in the >12<60 month bucket BRAC has net liquidity gap around BDT 32 million and cumulative liquidity gap was BDT 1.1 million.

**EXHIBIT 46: Asset Liability Maturity Structure (for all balance sheet position)**

Amount in BDT mill

Assets	Up to 1 Month	>1<3 Month	>3<12 Month	>12<60 Month	>60 Month	Total
<b>Current Asset</b>						
Cash and Bank balances and Short Term Deposits	1,812	2,529	-	-	-	4,341.66
Receivables and other current assets	742.93	660.72	420.33	1,071.78	-	2,895.75
Loans to members	3,310.18	6,620.37	31,446.75	-	-	41,377.30
( Acc. Provision for doubtful loans and accts.)	-	-	(2,595)	-	-	(2,594.73)
<b>Total Current Asset</b>	<b>5,865</b>	<b>9,810</b>	<b>29,272</b>	<b>1,072</b>	<b>-</b>	<b>46,019.98</b>
Loans to VO members						-
Regular	94.50	141.74	236.24	-	-	472.48
Non performing	46.66	93.32	419.94	559.92	-	1,119.85
Renegotiated	81.14	162.27	730.22	649.09	-	1,622.72
( Acc. Provision for doubtful loans and accts.)			(1,410.64)	(940.42)		(2,351.06)
Net Loans outstanding	222.29	397.34	(24.23)	268.59	-	863.99
<b>Long term assets</b>						-
Fixed Asset at cost	18.43	36.87	165.90	884.80	1,105.99	2,211.99
<b>Total Assets</b>	<b>6,106.16</b>	<b>10,244.63</b>	<b>29,414.01</b>	<b>2,225.16</b>	<b>1,105.99</b>	<b>49,095.96</b>
<b>Liabilities and Capital</b>						-
<b>Current Liabilities</b>						-
VO members savings deposit	314.36	628.72	2,829.26	-	-	3,772.34
Term Loan	1,305.64	3,046.49	4,352.13	-	-	8,704.26
Other Liabilities	151.26	302.52	1,361.32	-	-	1,815.10
<b>Total Current Liabilities</b>	<b>1,771.26</b>	<b>3,977.73</b>	<b>8,542.71</b>	<b>-</b>	<b>-</b>	<b>14,291.70</b>
<b>Long Term Liabilities</b>						-
VO members savings deposit				15,099.47		15,099.47
Term Loan				6,630.40		6,630.40
Securitized financing				552.36		552.36
<b>Total Long Term Liabilities</b>				<b>22,282.23</b>		<b>22,282.23</b>
<b>Capital Fund</b>						
Donor Funds				1,999		1,999
Retained Surplus				10,523		10,523
<b>Total Capital Fund</b>				<b>12,522.03</b>		<b>12,522.03</b>
<b>Liabilities and Capital</b>	<b>1,771.26</b>	<b>3,977.73</b>	<b>8,542.71</b>	<b>34,804.26</b>	<b>-</b>	<b>49,095.96</b>
<b>Net Liquidity Gap</b>	<b>4,334.90</b>	<b>6,266.90</b>	<b>20,871.30</b>	<b>(32,579.10)</b>	<b>1,105.99</b>	<b>-</b>
Net Liquidity as % of Total Asset	8.83%	12.76%	42.51%	-66.36%	0.00%	
Cumulative Liquidity Gap	4,334.90	10,601.80	31,473.10	(1,105.99)	0.00	
Cumulative Liquidity Gap as % of Total Asset	8.83%	21.59%	64.11%	-2.25%		

**9.1 ENTERPRISES & INVESTMENTS**

BRAC, as a social enterprise does not pursue profit exclusively. They enable BRAC to attain its vision and mission statements by sustaining the development interventions and creating job opportunities and thereby contributing to poverty alleviation. BRAC social enterprises comprise the following broad categories:

“Aarong” was set up in 1978 as a fair trade organization by BRAC; Aarong plays a crucial role in promoting local crafts. It employs 65,000 artisans of which 80 percent are women. In 2009, revenue from Aarong stood at BDT 2,701.95 million, registering a 5-year CAGR of 26.40%.

**EXHIBIT 49: Aarong**

Amount in BDT mill

Particulars	2009	2008	2007
<b>Total Revenue</b>	2,701.95	2,395.26	1,977.52
<b>Growth</b>	13%	21%	16%
<b>Net surplus for the year</b>	508.64	405.08	315.59
<b>Growth</b>	26%	28%	7%
<b>Cost service Provided as % of Revenue</b>	82%	83%	82%

Cost of service shows steady trend over the last 2 years. Hence, its net surplus in 2009 stood at BDT 508.64 million registering a 3 year CAGR of 54.85%.

**EXHIBIT 50: Aarong**

Amount in BDT mill

Particulars	2009	2008	2007
<b>Total Asset</b>	1,646.18	1422.37	1091.46
<b>Growth</b>	16%	30%	77%
<b>Total Liabilities</b>	356.50	386.02	257.65
<b>Net Assets -- Capital fund</b>	1,289.68	1,036.36	833.82
<b>Growth</b>	24%	24%	61%
<b>ROAA</b>	33%	32%	133%
<b>Liability to net surplus (x)</b>	70.09%	95.29%	81.64%
<b>Liability to Asset</b>	21.66%	27.14%	23.61%
<b>Efficiency ratio</b>	82%	83%	82%
<b>EBITDA / Sales</b>	17%	17%	16%

In line with the growth of revenue and net surplus it's asset base stood at BDT 1,646.18 million registering a growth of 16% from previous year. Low leverage with high brand strength of Aarong it has become a profitable venture (though no tax obligation, the enterprise is still commercially viable) which is reflected in its ROAA. Total capital fund stood at BDT 1,289.68 million which was allocated to BRAC programs.

**Livestock and fisheries**

**BRAC Dairy** initiated in 1998 was established to provide a fair price for milk to the members of BRAC's village Organizations who invested micro loans received from BRAC for cows. BRAC Dairy collects milk from 85 collection and chilling stations located in 25 districts, including 10 located in ultra-poor areas.

**EXHIBIT 51: BRAC DAIRY**

Amount in BDT mill

Particulars	2009	2008	2007
Revenue	1,460.84	1283.34	910.68
Growth	13.83%	40.92%	39.46%
Net surplus for the year	123.95	114.51	78.81
Growth	8%	45.30%	270.12%
Cost service as % of Revenue	91.86%	91.11%	91.38%

It's revenue stood at BDT 1,460.84 million posing CAGR 29.49% over the last 3-year period. There was growth of revenue and cost control mechanism (Cost of Service as % of Revenue was steady from 91.38% to 91.86% in 2009 from 2007), the net surplus stood at BDT 123.95 million registering CAGR of 68.75% during 2007-09.

**EXHIBIT 52: BRAC DAIRY**

Amount in BDT mill

Particulars	2009	2008	2007
Total Asset	580.99	579.13	452.4
Growth	0.32%	28%	48.60%
Total Liabilities	88.49	148.6	136.37
Growth	-40%	9%	12%
Net asset --- Capital Fund	492.51	430.53	316.03
Growth	14.40%	36.20%	86.40%
ROA	21.37%	19.77%	17.42%
Liability/Net surplus(x)	0.71	1.3	1.73
Liability to Asset	15.23%	25.66%	30.14%

The ratios indicate increase in profitability level from 2008 to 2009 and the increased profitability attributed to the high revenue growth, low leverage and cost control. As of December 2009, capital fund stood at BDT 492.51 million which was only BDT 169.55 million in 2006. There is 6 BRAC Poultry farm, 2 BRAC Feed Mills, BRAC Broiler Processing Plant which processed 1600 metric tons of meat, 12 fisheries under BRAC Fisheries, BRAC Salt Industries produced 11,149 metric tons of salt, BRAC Cold Storage has a cold storage facility in Comilla district which has capacity of 4,000 metric tones for short term storage, BRAC Vegetable Marketing is under BRAC sericulture and 16 horticulture nurseries. Also there are 4 tea gardens under BRAC Tea Estates in the Chittagong districts. The project employs 3,000 workers (including staff) and produced 16, 00,366 kilograms of tea during 2008. BRAC printers & packaging 80% percent of its materials production is for BRAC's education programs and office requirements. It also produces calendars, dairies, security printings and university publications. The BRAC Printing Pack produces around 1,500 metric tons of finished flexible packaging materials per year and provides employment over 100 workers.

**EXHIBIT 53: BRAC Printing & Packaging**

Amount in BDT mill

Particulars	2009	2008	2007
Revenue	787.14	862.77	790.10
Revenue Growth	-8.77%	9.20%	46.63%
Net surplus for the year	48.43	46.42	38.85
Net surplus Growth	4.34%	19.50%	-10.50%
Cost of service as % of Revenue	94%	94.45%	94.94%

**EXHIBIT 54: BRAC Printing & Packaging**

Particulars	Amount in BDT mill		
	2009	2008	2007
<b>Total Assets</b>	242.32	218.9	183.1
<b>Growth</b>	11%	20%	224%
<b>Total Liabilities</b>	51.54	41.54	43.75
<b>Net Assets - Capital Fund</b>	190.78	177.35	139.35
<b>Growth</b>	8%	27%	736%
<b>ROA</b>	21%	21.21%	21.22%
<b>Liability / Net surplus (X)</b>	1.06	0.89	1.13
<b>Liability to Asset</b>	21.27%	18.98%	23.90%

The Exhibit 53 & 54 indicates the high profitability level and low leverage position of the enterprise. The capital fund of this venture stood at BDT 190.78 million in 2009 from BDT 12.12 million in 2004 ( just 15.74 times) which implies the high viability of the project .

**BRAC INVESTMENTS**

BRAC has approximately 120,000 numbers of employees, 85,000 health volunteers, and 63,932 school teachers up to 2009. To accumulate adequate finance BRAC investments act as “hedge” to protect the organization from market failure and future banking industry “liquidity issues”. BRAC is the shareholder of BRAC Bank Limited; Delta Brac Housing Finance Corporation Limited is presently largest specialized housing finance institution in the country. BRAC Afghanistan Bank is jointly owned by BRAC, IFC, Shorecap International and Triodos Bank. BRAC maintains one branch and three sub-branches in Kabul, **bracNet** in partnership with gNet and Marubeni Corporation of Japan has its mission to bring affordable internet and data connectivity to the general population of the country, and Documenta Ltd. is a leading software development house in Bangladesh. BRAC Investments in the related undertakings are represented by its share in the respective net tangible assets, goodwill and loans extended.

**EXHIBIT 55: BRAC Investments in related undertakings**

Related undertakings	2009	2008	Principal activities
BRAC Bank Ltd.	37.18%	33.51%	Banking Business
BRAC Industries Ltd.	99.90%	99.90%	Cold Storage
BRAC BD Mail Network Ltd.	39.70%	39.70%	Internet service provider
BRAC Services Ltd.	100%	100%	Hospitality
Delta Brac Housing Finance Corp. Ltd.	20.37%	20.37%	Housing finance
Documenta TM Ltd.	80%	80%	Software development
BRAC Karnophull Tea Company Ltd.	99.90%	99.90%	Tea Plantation
BRAC Kaiyachara Tea Estate	99.90%	99.90%	Tea Plantation
BRAC Banskhali Tea Company Ltd.	99.90%	99.90%	Tea Plantation
BRAC Kodala Tea Company Ltd.	99.10%	99.10%	Tea Plantation
Bangladesh Netting Factory	94%	94%	Poultry processing

**10.1 BRAC INTERNATIONAL**

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BRAC has spread its development works to different countries of the world including Pakistan, Afghanistan, Liberia, Sierra Leone, Southern Sudan, Sri Lanka, Tanzania and Uganda.

**11.1 OTHER DIVISIONS**

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BRAC has training division of its own which has recently become an associate member of International Federation of Training & Development Organizations (IFTDO) in 2010. The IFTDO is the world-wide federation (UK based) formed in 1972 to develop and maintain a world-wide network committed to the development and transfer of knowledge, skills and technology to enhance personal growth, human performance, productivity and sustainable development. During 2009, through BRAC <sup>20</sup>RED the researchers contributed 20 articles to professional journals, 16 book chapters and books, 2 Ph.D thesis, 6 monographs, working papers and 5 popular articles published in reputed magazines and newspaper of Bangladesh. The Public affairs and communications department manages BRAC's identity, serving as the initial point of contact for both internal and external audiences, ranging from staff members to donors, media and the general public. The department began working with the global branding unit on reenergizing the BRAC brand. The publications department provides multimedia support to BRAC's core programs by designing and publishing printed materials such as books, banners, posters and pamphlets and maintaining audio-visual records of events.

**BRAC UNIVERSITY**

BRAC UNIVERSITY was established in 2001 with the aim of providing a broad based, high quality education to its students and developing them into the next generation of visionary leaders. BRAC University has an **Institute of Governance Studies (IGS)** which is a research, training and teaching Institute. In addition, IGS is providing technical assistance to the Ministry of Law, Justice and Parliamentary Affairs to undertake a compliance review of the United Nations Convention against corruption and is supporting the Cabinet Division in formulating a National Integrity Strategy for Bangladesh.

**Financing of BRAC University Institute**

During 2009, 0.93% fund of total donation received by BRAC was for educational development of BRAC University (in 2008, 0.92% fund). Those Donors are EKN, NORAD, Swiss Agency for Development & Corporation, World Bank, Plan Bangladesh and Institute of Dev. Studies-Sussex.

**GOVERNING BODY**

The Governing Body comprises 17 members. Sir Fazle Hasan Abed, the Founder and Chief Executive Officer at inception, is the Chair of the Governing Body. Apart from the Chief Executive Officer, all the other members of the Governing Body are non-executive. Distinguished, well reputed individuals in business and professions with pro-poor mindset have been elected to the Governing Body and bring their diverse skills and wise counsel in

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<sup>20</sup> Research and evaluation department.

the governance of BRAC. During 2009, two meetings of the Governing Body and Annual General Meeting of the General Body were held.

**Members of the BRAC Governing Body:**

1. Fazle Hasan Abed, Founder and Chairperson, BRAC
2. Taherunnessa Abdullah, Social scientist and gender specialist
3. Shabana Azmi, Social activist and renowned thespian
4. Sylvia Borren, Co-chair of GCAP and of its Dutch Chapter EEN
5. Martha Alter Chen, Lecturer in Public Policy at the Harvard Kennedy School and International Coordinator of WIEGO
6. Faruq A. Choudhury, Chairman, Delta-BRAC Housing Finance Corp., Bangladesh
7. Luva Nahid Choudhury, Director General, Bengal Foundation, Bangladesh
8. Susan Davis, President & CEO, BRAC USA
9. Shafiq ul Hassan (Quais), Businessman
10. Kazi Aminul Huque, Chartered Accountant
11. Syed Humayun Kabir, Chairman, Renata Ltd. Bangladesh
12. Irene Z. Khan, Secretary General, Amnesty International
13. Dr. Ainun Nishat, Country Representative, IUCN Bangladesh
14. Latifur Rahman, Industrialist
15. Rokia A. Rahman, Industrialist
16. Dr. Mahabub Hossain (ex-officio), Executive Director, BRAC
17. Muhammad A. (Rumee) Ali (ex-officio), Managing Director, BRAC Enterprises

**OMBUDSPERSON**

BRAC has established the office of the Ombudsperson with a comprehensive mandate to investigate any incident of misadministration and misuse of power within BRAC. This includes grievances, such as corruption, abuse of power or discretion, negligence, oppression, nepotism, rudeness, arbitrariness, unfairness and discrimination especially in the context of gender. Mr. Anis-uz-Zaman Khan, former Managing Director of the Social Marketing Company, is now the present Ombudsperson for BRAC.

**AUDIT COMMITTEE**

The Audit Committee assists the BRAC governing body in reviewing the financial condition of the organization, the effectiveness of the internal control system of the organization, performance and findings of the internal auditors and recommends appropriate remedial action. The Audit Committee reviews the findings of the Annual Audit Report as presented by the external auditors (ACNABIN in 2009- 2010) in the Memorandum on Internal Control and other matters of Annual Audit of BRAC. The Committee reviews the recommendations of the Auditors, the management comments and the actions taken in response to the above recommendations. The Audit Committee held four meetings in 2009. On 12 December 2010, in Kathmandu, Nepal BRAC was awarded the South Asian Federation of Accountants (SAFA) 2009 award in the category of Non Governmental Organizations for the Best Presented Accounts and Corporate Governance Disclosures.

**MIS**

BRAC uses ASCEND.NET for its MIS, which has been installed at branch level and head office. The software is not on-line facilitated to directly connect with head office. At the end of month, all branches send monthly transaction through compact disc to head office. Head office of BRAC updates the file and archives the data in two different places. The

branches, which were not computer facilitated, were connected with nearby computerized centre. BRAC Head Office and Field Offices perform separate functions. For branch offices, BRAC uses "Revised Accounts Manual". The financial statements of all the branches and the head office are consolidated on a monthly basis.

**DONOR CONSORTIA**

BRAC has two donor consortia, one each for the BRAC Education Program and the Ultra Poor Program. The consortia donors are the Department for International Development (UK), Embassy of the Kingdom of the Netherlands (EKN), CIDA (Canada), NOVIB (the Netherlands), AusAID (Australia), NORAD (Norway) and the World Food Program of the United Nations.

**MONITORING & DELEGATION OF AUTHORITY**

The monitoring unit is part of BRAC's internal control mechanism for programs. This Unit conducts periodic analysis using selected indicators to enable managers to determine whether key activities are being carried out as planned and whether they are having the expected impact on the target population. In 2009, the Monitoring Unit undertook analyses of 197 program issues. BRAC has developed clear written policies regarding the authority for each level of management and staff. Staffs are empowered to take decisions at all levels. Procedure manuals and policy documents are available to all staff.

**LONG-TERM CREDIT RATING: MICRO FINANCE INSTITUTIONS (MFIs)**

<b>RATING</b>	<b>DEFINITION</b>
<b>AAA Triple A</b>	<b>Extremely Strong Capacity &amp; Highest Quality.</b> MFIs rated 'AAA' have extremely strong capacity to meet their financial commitments. 'AAA' is the highest issuer credit rating assigned by CRAB. AAA is judged to be of the highest quality, with minimal credit risk.
<b>AA<sub>1</sub>, AA<sub>2</sub>, AA<sub>3</sub>* Double A</b>	<b>Very Strong Capacity &amp; Very High Quality.</b> MFIs rated 'AA' have very strong capacity to meet their financial commitments. They differ from the highest-rated MFIs only to a small degree. AA is judged to be of very high quality and is subject to very low credit risk.
<b>A<sub>1</sub>, A<sub>2</sub>, A<sub>3</sub> Single A</b>	<b>Strong Capacity &amp; High Quality.</b> MFIs rated 'A' have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than MFIs in higher-rated categories. A is judged to be of high quality and are subject to low credit risk.
<b>BBB<sub>1</sub>, BBB<sub>2</sub>, BBB<sub>3</sub> Triple B</b>	<b>Adequate Capacity &amp; Medium Quality.</b> MFIs rated 'BBB' have adequate capacity to meet their financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the MFIs to meet their financial commitments. BBB rated FIs are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
<b>BB<sub>1</sub>, BB<sub>2</sub>, BB<sub>3</sub> Double B</b>	<b>Inadequate Capacity &amp; Substantial Credit Risk.</b> MFIs rated 'BB' are less vulnerable in the near term than other lower-rated MFIs. However, they face major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which might lead to inadequate capacity to meet their financial commitments. BB is judged to have speculative elements and is subject to substantial credit risk.
<b>B<sub>1</sub>, B<sub>2</sub>, B<sub>3</sub> Single B</b>	<b>Weak Capacity &amp; High Credit Risk.</b> MFIs rated 'B' are more vulnerable than the MFIs rated 'BB', but the MFIs currently have the capacity to meet their financial commitments. Adverse business, financial, or economic conditions are likely to impair the capacity or willingness to meet their financial commitments. B is considered speculative and weak capacity and is subject to high credit risk.
<b>CCC<sub>1</sub>, CCC<sub>2</sub>, CCC<sub>3</sub> Triple C</b>	<b>Very Weak Capacity &amp; Very High Credit Risk.</b> MFIs rated 'CCC' are currently vulnerable, and are dependent upon favorable business, financial, and economic conditions to meet their financial commitments. CCC is judged to be of very weak standing and is subject to very high credit risk.
<b>CC Double C</b>	<b>Extremely Weak Capacity &amp; Extremely High Credit Risk.</b> MFIs rated 'CC' are currently highly vulnerable. CC is highly speculative and is likely in, or very near, default, with some prospect of recovery of principal and interest.
<b>C Single C</b>	<b>Near to Default.</b> A 'C' rating is assigned to MFIs that are currently highly vulnerable to non-payment, having obligations with payment arrearages allowed by the terms of the documents, or obligations that are subject of a bankruptcy petition or similar action but have not experienced a payment default. C is typically in default, with little prospect for recovery of principal or interest.
<b>D</b>	<b>Default.</b> MFIs rated 'D' are in default. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

*\*Note: CRAB appends numerical modifiers 1, 2, and 3 to each generic rating classification from AA through CCC. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.*



**SHORT-TERM CREDIT RATING: MICRO FINANCE INSTITUTIONS (MFIs)**

<b>RATING</b>	<b>DEFINITION</b>
<b>ST-1</b> Highest Grade	MFIs rated in this category are considered to have the highest capacity for timely repayment of obligations. MFIs rated in this category are characterised with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
<b>ST-2</b> High Grade	MFIs rated in this category are considered to have strong capacity for timely repayment. MFIs rated in this category are characterised with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
<b>ST-3</b> Average Grade	MFIs rated in this category are considered to average capacity for timely repayment of obligations, although such capacity may impair by adverse changes in business, economic, or financial conditions. MFIs rated in this category are characterised with satisfactory level of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
<b>ST-4</b> Below Average Grade	MFIs rated in this category are considered to have below average capacity for timely repayment of obligations. Such capacity is highly susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories. MFIs rated in this category are characterised with average liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
<b>ST-5</b> Inadequate Grade	MFIs rated in this category are considered to have inadequate capacity for timely repayment of obligations susceptible to adverse changes in business, economic, or financial conditions. MFIs rated in this category are characterised with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
<b>ST-6</b> Lowest Grade	MFIs rated in this category are considered to have obligations which have a high risk of default or which are currently in default. MFIs rated in this category are characterised with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.

The rating committee of CRAB is the final authority to award a rating. The rating committee of CRAB is comprised of external independent persons who are not members of the board of the company and they ensure the independence of rating.

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