# CREDIT RATING REPORT

AAA

AA2 BBB<sub>1</sub>

**A3** BB<sub>2</sub>

CCC1.





# Credit Rating Report (Surveillance) BRAC

| Ratings:       |               |            |  |
|----------------|---------------|------------|--|
| Long Term      | : AAA         |            |  |
| Short Term     | : ST-1        |            |  |
| Previous Ratin | gs            |            |  |
| Date of Rating | s : Long Term | Short Term |  |
| 30 December,   | 2010: AAA     | ST-1       |  |
| 18 February, 2 | 010: AAA      | ST-1       |  |

Date of Rating : 18 Sept, 2011 Validity : 30 June, 2012

Rating Based on: Audited financial statement up to 31 December 2010 and other relevant quantitative as well as qualitative information up to the date of rating declaration.

Methodology: CRAB's Rating Methodology (www.crab.com.bd)

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| Micro finance program            | Up to March 2011 |
|----------------------------------|------------------|
| Village Organizations (VO)       | 304,950          |
| VO members (in mil)              | 8.12             |
| Total Borrowers (in mil)         | 5.45             |
| Cumulative Disbursement (in mil) | BDT 524,036      |
| Loan Disbursement 2011 (in mil)  | BDT 19,569       |
| Outstanding Loan (in mil)        | BDT 44,822       |
| Repayment Rate                   | 98%              |
| Average Loan Size                | BDT 13,398       |
| Savings Deposits (in mil)        | BDT 20,179       |
| Cost per loan                    | BDT 1,536        |

| Essential Health Care                      | Up to March 2011 |
|--|------------------|
| Working Districts                          | 64               |
| Population Covered                         | 92 mil           |
| Pregnant Women Received<br>Ante-Natal Care | 5.34 mil         |
| Health Volunteers                          | 80,000           |
| Eligible Couples Served                    | 90.37 mil        |
| BRAC Health Centres                        | 31               |
| Limb & Brace Centres                       | 2                |
| Total Services Provided                    | 10,004           |

| Human Rights and Legal Aids Service |          |  |
|-------------------------------------|----------|--|
| Human rights and legal aids classes | 156,822  |  |
| HRLE Graduates                      | 3.6 mill |  |
| Community Leaders Workshop<br>Held  | 14,161   |  |
| Complaints received                 | 154,187  |  |
| Complaints resolved by ADR          | 83,478   |  |
| Cases sent to Court                 | 26,142   |  |
| Judgment Received in Favor          | 12,785   |  |

#### **■ RATIONALE**

Credit Rating Agency of Bangladesh Limited (CRAB) has retained "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 commendable profitability level and portfolio quality; and strong brand image.

Managing Director
Credit Rating Agency
of Bangladesh Ltd.



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 guarter of the entire population.

BRAC's education programs reached more than 4.66 million children in Bangladesh. Number of primary students in June 2011 is 0.75 million. Up to June 2011, BRAC's number of "Polli Shomaj" reached to 11,217. Number of Human Rights and Legal Services (HRLS) graduates is 3.65 million. BRAC health care has covered 92 million people of Bangladesh. These achievements are made possible by the work and dedication of 80,000 community health volunteers up to June 2011. Under Tuberculosis program 0.42 million patients treated up to June 2011. Under IMNC project up to June 2011, around 14.71 million (cumulative) pregnant women received 4 ante natal cares. Under Manoshi project 17.64 million women received 3 ante natal cares.

Under BRAC WASH program it has provided more than 8.5 million people with safe water supply services in 2010. Moreover, BRAC has ensured visits by health workers, dig pond, sinking deep tube wells, and set up desalination plants, constructed 3.4 mill 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 in 2010.

There are some changes in microfinance operations of BRAC in 2010. Number of VO member increased to 7.81 million up to June 2011. Total loan disbursement under micro finance program up to June 2011 was BDT 39,919 million. On Dec 2010 total portfolio of BRAC stood at BDT 43,841 million whereas PaR [>=30 Days] stood at BDT 3,485.8 million, which was 7.95% of total portfolio. PaR >=30 days growth was -0.8 in Dec 2010. The loan portfolio growth too decreased in Dec 2010 which was -0.5% compared to portfolio growth of 2009: -2.1%. BRAC has begun to take steps from 2009 to ensure that its members are not becoming over- indebted. These steps include reduction in rate of portfolio growth, significant increase in borrower screening prior to loan disbursement and increased collaboration with other organizations in the micro finance sector.

BRAC has social enterprise like Aarong whose net surplus in 2010 stood at BDT 703.9 million registering a 3 year CAGR of 10.6%. BRAC Dairy net surplus stood at BDT 163.3 million registering CAGR of 17.7% during 2008–10. 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 71 per cent self-sufficient and only 29 per cent reliant on donor funding.

CRAB believes that BRAC shows it 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.



#### ■ 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 or 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.

#### ■ INDUSTRY REVIEW

Microcredit programs in Bangladesh is implement by NGOs, Grameen Bank, state-owned commercial banks, private commercial banks, and specialized programs of some ministries of Bangladesh Government. According to the provision of the Microcredit Regulatory Authority (MRA) Act 2006, no private organization (NGO-MFIs) is permitted to operate microfinance activities in Bangladesh without obtaining license from Microcredit Regulatory Authority (MRA). It needs to be mentioned here that MRA has considered 233 MFI institutions out of 489 MFI's for the following data. These 233 institutions, which captured more or less 88 percent of microfinance operations of 489 institutions in terms of client outreach and financial portfolios. The following table shows some basic statistics of micro finance sector for the last five years. As of June 2009, there are around 18 thousand branches of NGO-MFIs all over the country. The sector is serving around 20 million people. The exact number could be calculated if overlapping number of clients, i.e. one person served by multiple organizations, were known (currently it is assumed to be over 40%1).

| Table 1                        |           |           |           |            |         |  |
|--------------------------------|-----------|-----------|-----------|------------|---------|--|
| Particulars                    | Jun-05    | Jun-06    | Jun-07    | Jun-08     | Jun-09  |  |
| No of Branches                 | 7,733     | 12,156    | 11,461    | 13,636     | 18,C    |  |
| Total clients (million)        | 18.82     | 22.89     | 20.83     | 25.13      | 24      |  |
| Total borrowers (million)      | 13.98     | 17.18     | 17.01     | 20.4       | 1       |  |
| Total savings (BDT million)    | 21,005.35 | 27,636.12 | 37,759.38 | 36,397.32  | 43,668  |  |
| Loan outstanding (BDT million) | 56,058.80 | 75,178.71 | 85,872.94 | 114,536.78 | 121,881 |  |

The MFI sector as a whole has an outstanding loan amount of BDT 121,881.85 million and has collected microsavings of BDT 43,668.61 million at the end of June 2009. Trend shows that the average growth of number of branches of NGO-MFIs was 25.7%, whereas the number of clients and borrowers has 8% and 9.4% average growth respectively during this 5 year term. It is observed from the Table-2 that ratio between borrowers to clients (members) remained steady during 2005-09, which was around 80 percent. While the growth of savings collection had fallen behind compared to the growth of loan disbursement during this 5 years, During 2009, Savings to loan outstanding ratio was 35.5 percent in 2009, which was 31.78 percent in 2008. Since the total number of branches of MFIs has increased at a much faster rate in 2009 than the rate of loan portfolio, clients or borrowers per branch and loan outstanding per branch have decreased during this period.

<sup>&</sup>lt;sup>1</sup> Source: PKSF (2006). MAPs on Microcredit Coverage in Upazilas of Bangladesh, Palli Karma-Sahayak Foundation, October 2006, Dhaka, Bangladesh



| TABL   | E 2: Selected Indicato | rs of NGO-MFIs |           |           |
|--|------------------------|----------------|-----------|-----------|
| Particulars                                  | June 2006              | June 2007      | June 2008 | June 2009 |
| Savings per member (BDT)                     | 1,207.3                | 1,332.7        | 1,448.3   | 1,735.5   |
| Outstanding loan per borrower (BDT)          | 4,377.1                | 5,048.4        | 5,614.5   | 6,188.0   |
| Borrower to client ratio (%)                 | 75.0                   | 81.6           | 81.2      | 78.9      |
| Savings to outstanding loan ratio (%)        | 36.7                   | 32.3           | 31.8      | 35.5      |
| Borrower per branch                          | 1,413                  | 1,484          | 1,496     | 1,036     |
| Member per branch                            | 1,883                  | 1,817          | 1,843     | 1,312     |
| Outstanding loan per branch<br>(Million BDT) | 6.2                    | 7.5            | 8.4       | 6.4       |
| Savings per branch (Million BDT)             | 2.3                    | 2.4            | 2.6       | 2.3       |

Number of clients per branch which stood at 2,434 in 2005 has fallen to only 1,312 in 2009. Loan outstanding amount per branch which was BDT 7.25 million in 2005 has come down to BDT 6.41 million in 2009. It seems that organizations have opened many new branches in 2008 and 2009 without increasing loan portfolio at the same rate. Potential risks of this trend could be a) increase in operational cost, b) unhealthy market competition, c) decline in efficiency, and d) increase of multiple borrowings by a single borrower.

FUND COMPOSITION OF MICRO FINANCE INDUSTRY: Previously donor driven NGOs are now increasingly trying to become more dependent on local fund with the decline of foreign fund, which stood at 3.10% in 2009. Savings from the clients and surplus income from microcredit operations appeared as two major sources of fund during this period. Table-3 shows sources of fund of the microfinance sector for the year 2008 and 2009. As of June 2009, contributions from clients' saving and cumulative surplus were 30.62 percent, and 28.01 percent respectively. PKSF, the government owned wholesale funding agency, provides a large portion of loan fund at a subsidized rate. However, contribution of PKSF in total fund has been declining from 18.50 percent in 2008 to 15.62 percent in 2009. It is observed that commercial banks are now considering microfinance as potential sector for investment. 18.86 percent of total fund was contributed by the banking sector in 2009.

|                            | ABLE 3: Sources of Fund of<br>June 20 |        | June 200      | )9    |
|----------------------------|---------------------------------------|--------|---------------|-------|
| Source of Fund             | (Million Tk.)                         | (%)    | (Million Tk.) | (%)   |
| Clients' Savings           | 36,397.3                              | 29.6   | 38,799.0      | 30.6  |
| Loan from PKSF             | 22,708.5                              | 18.5   | 19,792.6      | 15.6  |
| Loan from Govt.            | 288.8                                 | 0.2    | 290.8         | 0.2   |
| Loan from Other MFIs       | 868.1                                 | 0.7    | 407.8         | 0.3   |
| Loan from Commercial Banks | 23,487.0                              | 19.1   | 23,893.3      | 18.8  |
| Other loans                | 2,176.6                               | 1.7    | 1,862.0       | 1.4   |
| Donors' Fund               | 4,549.0                               | 3.7    | 3,916.6       | 3.1   |
| Cumulative Surplus         | 31,170.0                              | 25.3   | 35,492.1      | 28.0  |
| Other Fund                 | 1,101.8                               | 0.9    | 2,245.1       | 1.7   |
| Total                      | 122,747.5                             | 100.00 | 126,699.5     | 100.0 |

INTEREST RATE ON CREDIT: A recent survey done by MRA shows that NGO-MFIs usually charges 12-15% flat interest on loans for a term of one year, which would be around 24-30% per year if calculated on a declining balance



method. Under the flat interest method, MFIs charge a flat rate of interest for the total amount of loan at the beginning of the loan disbursement and prepare a repayment schedule of equal installments. However, the real effective rate turns out to be higher depending on the terms and conditions of loan such as upfront deductions on loan, number of installments, mode of payment etc. Usually, loans for one-year term are paid back by 45–46 weekly installments. Some loans are repaid by monthly installments and some are just by a single installment. The survey shows that if other terms and conditions are not considered, effective rate of interest on general loan ranges from 25–33%. Among them, 75% institutions' range falls under 28–30% and modal value is 29%. If deductions for savings and insurance during loan disbursement are considered, the effective interest rates would be even higher.

Table 4: Interest rate of micro credit

| Interest Rate |  |  |  |  |  |
|---------------|--|--|--|--|--|
| SI. No        | Types of Loan                          |  | (Usual Range)  |  |  |
|               |  | Considering<br>deduction for<br>savings and<br>insurance during<br>loan disbursement | Without<br>considering any<br>deduction<br>during loan<br>disbursemnet |  |  |
| 1             | General microcredit<br>(Rural & Urban) | 28 - 70%   | 25 - 33%   |  |  |
| 2             | Micro-enterprise<br>Loan               | 28 - 65%   | 26 - 40%   |  |  |
| 3             | Ultra poor Loan                        | 22 - 28%   | 22%  |  |  |
| 4             | Agricultural Loan                      | 28 - 65%   | 22 - 33%   |  |  |
| 5             | Seasonal Loan                          | 28 - 55%   | 26 - 33%   |  |  |
| 6             | Disaster<br>Management Loan            | 2.46 - 21%   | 2.46 - 21%   |  |  |

A concrete policy guideline on interest rate for loans is felt to be a serious need, preparation of which is ongoing now. Defining a standardized way to calculate interest rates, standardization of loan contracts and repayment schedules, proper disclosure of information are major concerns.

Table 5: Basic information of 5 major MFI/NGO on 30 June 2009

|                               |                  |             | Savings cost | Lending cost |                 | Interest rate Operation |     |             |
|-------------------------------|------------------|-------------|--------------|--------------|-----------------|-------------------------|-----|-------------|
|                               | Loan outstanding | Net savings | ratio        | ratio        | Portfolio Yield | spread                  | ROA | sufficiency |
| ASA                           | 24,195           | 7,808       | 0.6          | 2.0          | 29.6            | 27.1                    | 9.2 | 149.6       |
| BRAC                          | 45,400           | 16,989      | 2.2          | 7.4          | 28.0            | 18.4                    | 4.0 | 114.4       |
| BURO Bangladesh               | 3,251            | 1,310       | 2.0          | 8.7          | 32.5            | 21.8                    | 3.3 | 108.7       |
| TMSS                          | 3,143            | 1,198       | 1.2          | 3.0          | 24.3            | 20.1                    | 1.4 | 102.1       |
| Jagoroni Chakro<br>Foundation | 1,731            | 539         | 2.5          | 4.7          | 25.3            | 18.4                    | 1.9 | 95.3        |

As per MRA statistics for June 2009 vol-6, the sector as a whole has an outstanding loan amount of BDT 121,881.85 million and micro savings was BDT 43,668.61 million where the large 5 MFI/NGOs share was 64% in the both sector at the end of June 2009.



# BRAC AT A GLANCE ON JUNE 2011

| Legal Form | Years of operation                               | Total Borrowers | Full time | Village       |
|------------|--|-----------------|-----------|---------------|
|            |  |                 | Staff     | Organizations |
| NGO &      | 39 years   | 5.22 mill       | 47,634    | 306,278       |
| MFI        | -11/21/10/20/20/20/20/20/20/20/20/20/20/20/20/20 |                 |           |               |

BRAC MICRO FINANCE OPERATIONS: KEY FINANCIAL RATIOS OF 30 DEC 2010

| Capital Adequacy<br>Ratio   | Portfolio at Risk<br>(>=30 Days) | Financial Cost Ratio       | Operational Self<br>Sufficiency   | Yield on Portfolio                  |
|-----------------------------|----------------------------------|----------------------------|-----------------------------------|-------------------------------------|
| 29.7                        | 7.95                             | 6.9                        | 118.8                             | 26.9                                |
| Gearing Ratio (x)           | Debt to Equity Ratio             | Funding Expense<br>Ratio   | Total Income to<br>Average Assets | Total Expenses to<br>Average Assets |
| 2.6                         | 1.1                              | 12.9                       | 24.9                              | 21.0                                |
| Return on Average<br>Assets | Return on Average<br>Equity      | Liquidity Ratio            | Capital /Asset Ratio              | Deposit to Loan<br>Ratio            |
| 3.9                         | 15.3                             | 10.0                       | 27.6                              | 45.8                                |
| NPL coverage Ratio          | Gross Loan to Total<br>Assets    | Operating Expense<br>Ratio | Write Off Ratio                   | Efficiency Ratio                    |
| 70.1                        | 90.9                             | 10.7                       | 3.4                               | 14.1                                |

Table 6: Eligibility Criteria of PKSF

| Eligibility Criteria  | As of 30 Dec 2010 |             |  |
|---|-------------------|-------------|--|
|   | Required          | BRAC Actual |  |
| Cumulative Loan Collection Ratio<br>(On Total dues)                   | 95%               | 99.53%      |  |
| Loan collection Ratio on Current dues<br>( on running 12 month basis) | 92%-100%          | 98.00%      |  |
| Minimum Liquidity Ratio   | 20%               | 24.07%      |  |
| Minimum Current Ratio   | 1.50              | 3.32:1      |  |
| Minimum Capital Adequacy  | 20%               | 29.70%      |  |
| Minimum Debt Service Coverage Ratio                                   | 1.25              | 4.24:1      |  |
| Minimum Rate of Return on Capital                                     | 2%                | 15.28%      |  |



#### Notes:

- 1. All figures pertain to the organization's microfinance program as on 30 Dec 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.
- 3. The PAR<sub>30</sub> and PAR<sub>180</sub> figures above are before write-offs in 30 Dec 2010.
- The loan repayment ratio has been calculated from MIS reports generated by BRAC.
- 5. Monetary assets and liabilities denominated in foreign currencies as at 31 Dec 2010 have been converted into taka at the exchange rates prevailing at that date. 1 USD = 70.35 Taka.

# ORGANIZATIONAL BACKGROUND

BRAC, the largest non-profit in the developing world, was launched in Bangladesh in 1972 and today reaches more than 110 million people in Africa and Asia through its programs that address poverty by providing micro-loans, self-employment opportunities, health services, education and legal and human rights services. BRAC offers preventive, curative, and reproductive health services to more than 92 million people. BRAC's vision is to improve the health, wealth and well-being of millions of the poorest families primarily in Asia and Africa. BRAC's work gives people a chance to transform their lives. BRAC invests in training and building human capacity in each country where we work. We organize the most vulnerable, particularly poor women, for their own self-empowerment, rights, protection, work and collective voice, enabling them to fully develop themselves and contribute to their communities. 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. Few selected evolution achieved by BRAC is following:

Today, BRAC's integrated health, micro 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. BRAC tries to use funds from its social enterprises to pilot and spread other types of programs throughout Bangladesh. 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 makes 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. For the period of 2007-2010, in areas where Manoshi operates, monitoring of progress shows reduction in home delivery from 86% to 25% automatically lowering the chance of maternal mortality, in these intervention areas, the results are even more dramatic than what the national study has shown. Neonatal mortality rate here is down to 13 (per 1000 births) and maternal mortality of 141 in the slums of Dhaka City Corporation and 124 (per 100,000 births) in slums of 5 city corporations across the country compared to the national average of 194. In the IMNCS areas, progress over the same period shows increase in hospital delivery from 15 to 30%, and reduction of maternal mortality to 157 per 100,000 cases. There are BRAC development program containing education, health, human rights and legal institutions, economic development, disaster management environment and climate change, agricultural and food security and water sanitation and hygiene. The major projects of BRAC will be discussed following.



#### BRAC EDUCATION

The BRAC Education Program (BEP) began in 1985. As of March 2011, 4.66 million children have graduated from the BRAC primary system. Number of primary students in March 2011 is 0.75 million.

Pre-primary school: In 1997, BRAC launched pre-primary school program by setting up 40 pre-primary schools whereas up to June 2011 BRAC has 13,054 pre primary schools. Number of current student from pre primary schools up to June 2011 is 0.37 million. Around 99% of children who enters the BRAC pre primary school go to mainstream schools. BRAC has also adapted education program for ethnic minorities starting from 2001. Up to June 2011 there are 2,441 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.

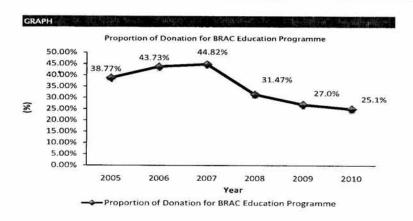
Primary and Secondary School: BRAC has initiated to improve education for the under-privileged begin in 1985 by setting up 22 one room primary schools. BRAC has 24,398 primary schools up to June 2011. Number of total graduate passed from BRAC Primary Schools up to June 2011 was 4.66 million. BRAC has to spend USD\$ 32 for each student per year. Girls now account for 60%–65% of all students. 20verall dropout rate was 6.13% and the incidence of dropout was higher among female students. Around 29,906 teachers of BRAC receive training up to June 2011 on various subjects. BRAC also supports 3,089 secondary schools across the country to help Government efforts in improving the quality of secondary education.

Table 7: Primary school 2008 Sept 2009 Up to June 2010 Up to March 2011 Currently running 38,250 38,250 38,250 24,398 Graduates (In Mill) 3.80 4.11 4.38 4.66

 Table 8:

 Category
 2008
 Sept 2009
 Up to June 2010
 Up to June 2011

 BEP teachers
 65,359
 69,932
 35,497
 37,875



<sup>&</sup>lt;sup>2</sup> (Reference taken from "Beyond dropout: A study on BRAC primary School", Nov 2010.)



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 8,016 adolescence development centers up to June 2011. Members of adolescent clubs performed on a TV talent show in March 2011. BRAC has 2,327 "Gonokendro" which started in 1995 as community libraries as part of the continuing education program. These Gonokendro with 995,332 subscribers, 1,115 Gonokendros are equipped with IT facilities, 640 mobile libraries. Currently 80% "Gonokendro" are self sustaining. BRAC also initiated Social and Financial Empowerment of Adolescents (SoFEA). The SoFEA initiative is about empowering adolescent girls through financial and social support.12, 000 girls between age 11 to 21 years are reached through SoFEA in 360 clubs around Bangladesh.

#### Achievements in 2010

- 4.66 million boys and girls have graduated from our schools
- 21 children received essential eye operations,
- 40 children given cleft lip and plate surgery
- 1,298,516 students have enrolled to date in both our pre-primary and primary schools
- 8,715 clubs for adolescents operate across the country reaching 225,631 young girls
- Special needs students participated in the Special Olympics trials and Afsana Akter, from a BRAC school, was awarded first place in ball throwing qualifying for the official Bangladesh

### ■ BRAC HEALTH

Until now BRAC health care has reached in 64 districts and over 100 million people of Bangladesh. These achievements are made possible by the work and dedication of 80,000 community health volunteers up to March 2011. BRAC health components includes Essential Health Care (EHC) which is the core of BRAC health program, combining preventive, basic curative and referral care, aimed at improving the health of poor people, especially women and children. EHC has seven components: health and nutrition education; water and sanitation; family planning; immunization; prenatal care; basic curative services and tuberculosis control. Malaria Control Program operates in 13 districts across Bangladesh including the Chittagong Hill Tracts (CHT). Manoshi Project which deals with maternal, neonatal and child health initiative (Urban) launched in 2007 in Dhaka and provides community based maternal and child health care services in urban slums, with the support of slum volunteers, skilled community workers and Program Organizers based in nearby hospitals for emergency cases. "Alive and Thrive" is a nutritional intervention program aimed to reduce under nutrition and nutrition induced mortality through effective implementation of twin strategies, e.g. exclusive breast-feeding and timely initiation of complementary feeding. The project promotes healthy nutrition practices among infant, young children below 2 years and their care givers through community level counseling, coaching and demonstration and is being duly supported by appropriate advocacy, social marketing, and mobilization activities to ensure an enabling environment around the project. This pilot project already expanded 50 rural upzilla. There is a project named "Sprinkles Program" which has goal to significantly improve nutritional status and remedy Iron Deficiency Anemia amongst infants and children of the poor and ultra-poor throughout Bangladesh.

#### The objective of this program:

- Reach approximately 3.33 million children (0.52 million children by year 1; 1.05 million children by year 2; and 1.76 million by year 3);
- Improve the vitamin and mineral status of the target population by 20% over baseline;
- Create an infrastructure demonstrably capable of generating the additional revenues needed to sustain the program past 3 years.

Acute Respiratory Infection (ARI) Control Program: The community based ARI Control Program started in 2007 and gradually expanded to 40 districts in 2009 with an aim to reduce deaths due to ARI among children under 5 years and thereby significantly reduce under-five mortality.



Tuberculosis Control Program: Up to 2010, total of 89.5 patients were examined and 23,771 cases diagnosed with TB and 92% patient cured. (6% donation out of BRAC's total donation in 2010). Around 94.3 million people reached under this program up to June 2011.

Malaria Control Program: BRAC operates this program in Moulovibazar and all 4 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 194,884 up to June 2011.

Maternal, Neo Natal and Child Health projects: With the assistance of Govt. and UNICEF this health project reached around 18.8 million patients where 67.6% million patients received 4 Ante natal cares, 51.02% women delivered at hospital up to June 2011. In 2010, 5.7 million people served in urban areas 8,317 deliveries made in birthing huts, 426 delivery centers in urban areas and 11 million population reached in rural parts

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. Up to June 2011, 5.7 million populations covered under this project where 94% patients received 3 or more post natal care, 78.2% patients received 4 or more Ante natal care.

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 June 2011, in 31 "Shushasthaya" center 327,185 patients treated.

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. Up to June 2011 a total 10,610 patients received different types of services from the center. Other projects of BRAC include "Reading Glasses for Improved Livelihoods' working with Vision Spring, covering 15 districts, specially trained "Shasthya Shebikas" use simple charts to identify near-vision deficiency. They sell ready-to-use spectacles at a nominal price, educate people on eye problems and are trained to refer complicated cases to medical professionals. Up to 2010, 7.9 million people covered, 36,739 people screened and 9,573 glasses sold. Under Vision Bangladesh project up to 2010, 612 cataract surgeries completed by BRAC.

Pilot Initiatives: Under this pilot initiative it includes Micro Health Insurance Program, HIV/AIDS Program and Nutrition initiatives. Micro health insurance program is introduced for poorer family access to affordable quality health care. New Initiatives: BRAC have developed a Mobile Health Project, in partnership with Click Diagnostics Inc, where "Shasthya Kormis" can use mobile phones to share real-time information about their patients, mainly pregnant women and newborns, helping to improve the process of diagnosis and treatment. Working in partnership with GE Healthcare, BRAC has planned to introduce a portable oxygen support device, at community level, in an effort to fight birth asphyxia in newborns. The pilot program launched in January 2011.

TABLE 9:

| TABLE 9. |                                       |
|----------|---------------------------------------|
| 2008     | Up to June 2011                       |
| 31       | 31                                    |
| 147,390  | 194,884                               |
| 1.35     | 5.66                                  |
| 88.5     | 94.3                                  |
| 74,000   | 80,000                                |
|          | 2008<br>31<br>147,390<br>1.35<br>88.5 |



#### ■ 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.

| TABLE 10:             |             |                 |                 |  |  |
|-----------------------|-------------|-----------------|-----------------|--|--|
| Particulars           | 2008        | Up to June 2010 | Up to June 2011 |  |  |
| No of Polli Shomaj    | 12,260      | 11,830          | 11,278          |  |  |
| No. of Union Shomaj   | 838         | 948             | 1,089           |  |  |
| No. of HRLS Graduates | 3.5 million | 3.5 million     | 3.6 million     |  |  |

Human Rights and Legal Services (HRLS): 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 2011 is 3.65 million.

| TABLE 11:       |  |  |  |  |
|-----------------|--|--|--|--|
| Up to June 2011 |  |  |  |  |
| 157,917         |  |  |  |  |
| 14,381          |  |  |  |  |
| 158,498         |  |  |  |  |
| 85,724          |  |  |  |  |
| 27,302          |  |  |  |  |
| 13,340          |  |  |  |  |
|                 |  |  |  |  |

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. In 2010, BRAC gave legal aids to 23 acid victims, 164 under trial prisoners were successfully released, 134 prisoners were referred to District legal aid clinics, and 2.059 prisoners were given legal assistance.

# ENVIRONMENT

# Achievements in 2010

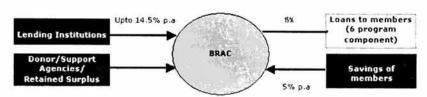
BRAC focus is on responding rapidly to natural disasters, with emergency relief and following up with rehabilitation support, to help communities to restore their lives and livelihoods. In 2010, BRAC launched waste management as a pilot program, the Solid Waste Treatment Plant in Tongi Pourashava (municipality) aims to significantly reduce environmental pollution, surface water contamination and improve the environmental health condition of the area. To help support farmers and provide guidance on the best times to grow seedlings or transplant rice crops, BRAC have installed 5 weather stations and plan to install 3 more, in partnership with the Bangladesh Meteorological Department (BMD) and the Ministry of Environment and Forest (MOEF), across the country.



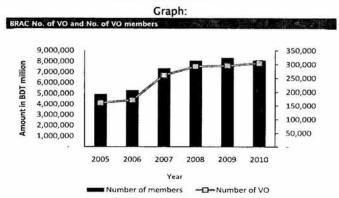
#### ■ MICRO FINANCE OPERATION (MFO)<sup>3</sup>

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 from 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 graph.

Graph: Fund Flow



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. Normally there are 30-40 members in a VO. Once a VO has a minimum of 20 members, activities may start. The Microfinance Program covers all 64 districts of Bangladesh with its 304,950 Village Organizations. BRAC micro finance program has two broad categories of loan 1) micro loan and 2) micro enterprise loans. In the graph, movement of BRAC Village Organizations and members trend from 2005 to 2010 is plotted. It is seen that there are 8.12 million VO members.



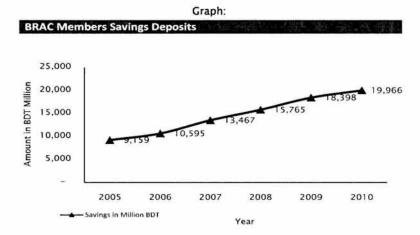
# MICRO CREDIT SERVICES

Savings: BRAC has 4 types of savings deposit namely (a) Own savings (b) Compulsory savings (c) Monthly savings (d) Term deposits. 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 member is required to save minimum BDT 5 a week. Compulsory savings: When loans are disbursed to VO members, 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 vary between BDT 100 to BDT 1000. Term deposits: Each VO member can save 1 to 10 years for a fixed time period. The amount will be between BDT 10,000 to BDT 100,000. The graph reflects the upper trend of savings indicating effective savings mobilization efforts of BRAC, which reached at BDT 19,966 million by the end of December 2010, registered a growth of 9%.

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<sup>&</sup>lt;sup>3</sup> BRAC's financial statement prepared in compliance with the requirement of Micro Finance Regulatory Authority Act (MRA), 2006:





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. BRAC credit program has two segments, one is named as "Dabi" (combining Dabi and Unnoti) and another Progoti. Effective rate of interest on loan to VO members are i) Housing Loan 10% ii) Agriculture Loan 13% iii) Agro business 13% and vi) General micro finance 15%.

Table 12: Credit Ladder Definitions of Target Terms & Conditions/ **Product Details** Group Prerequisites Dabi Dabi targets womer Loan sizes range from households. between BDT 7,000-Dabi members must 60,000. Interest That own no more than 1 12.50% - 15% flat. acre of (including Attend weekly VO homestead). members regularly. That earns their Repayment: living by selling their egual weekly manual labor. installments over period of 1 year. Save regularly. That Not permanently in the related with other NGOs. Progoti Progoti targets Progoti members must Loan sizes range men and women who between BDT 50,000operate existing micro 300,000. enterprises looking to expand. Or Have good Service entrepreneurial charge: 12.50% skills 15% flat. Are Dabi Open bank Loan terms: 12 graduates or other account in order 18, and 24 months. receive their loan. looking to start a micro enterprise Repayment: equal monthly installments.

# 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.



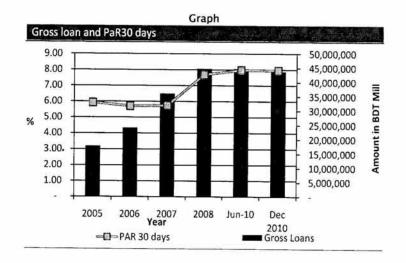
#### PORTFOLIO QUALITY

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.

Table 13: **Particulars** 2007 2008 2009 2010 Portfolio Growth (%) 49.51 24.06 -2.07-0.54NPL Growth (%) 118.85 5.10 32.89 27.47

It is seen from the table that as on 30 Dec 2010 total loan portfolio of BRAC stood at BDT 43,841 million whereas PaR [>=30 Days] stood at BDT 3,498 million, which was 7.95% of total portfolio and 50% of total NPL. The loan portfolio growth -0.54% in Dec 2010: compared to portfolio growth (FY 09: -2.07%). In the Table PaR [>=30 Days] and PaR [>=180 Days] as well as PaR [>=30 Days] and PaR [>=180 Days] after adjusting renegotiated loans is calculated in the following table.

Table 14: Ratio(%) December June December December 2010 2010 2009 2008 PaR>= 30 days 1.72 4.36 2.78 4.05 PaR>=180 days 1.15 3.60 1.96 1.52 Includes Renegotiated Ioan (%) PaR>= 30 days 7.95 7.98 7.98 7.69 PaR>=180 days 7.37



7.21

7.16

5.16



Table 15:

| Days in          | Rate of   | Principal   |  | SECTION SHOWS  |
|------------------|---|---|--|--|
| arrear           | provision   | Outstanding   | Proportion   | Required<br>Provision  |
|                  |   |   |  |  |
| Current          | 3%  | 36,857.20   | 84.07%   | 1,105.72   |
| 1-30 days        | 5%  | 3,498.08  | 7.98%  | 174.90   |
| 31–180<br>Days   | 20%   | 252.89  | 0.58%  | 50.58  |
| 181-350<br>Days  | 75%   | 1,059.28  | 2.42%  | 794.46   |
| Over 350<br>Days | 100%  | 2,173.59  | 4.96%  | 2,173.59   |
| n.a              | n.a   | n.a   | n.a  | 164.15   |
| n.a              | n.a   | n.a   | n.a  | 430.88   |
|                  |   | 43,841.05   | 100.00%  | 4,894.28   |
|                  | 1-30 days<br>31-180<br>Days<br>181-350<br>Days<br>Over 350<br>Days<br>n.a | Current 3% 1-30 days 5% 31-180 20% Days 181-350 75% Days Over 350 100% Days n.a n.a | Current         3%         36,857.20           1-30 days         5%         3,498.08           31-180         20%         252.89           Days         1,059.28           Days         1,059.28           Over 350         100%         2,173.59           Days         n.a         n.a           n.a         n.a         n.a           n.a         n.a         n.a | Current         3%         36,857.20         84.07%           1-30 days         5%         3,498.08         7.98%           31-180         20%         252.89         0.58%           Days         1,059.28         2.42%           Days         2,173.59         4.96%           Days         n.a         n.a         n.a           n.a         n.a         n.a         n.a           n.a         n.a         n.a         n.a |

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

|                        |      | Table 16: |           |          |
|------------------------|------|-----------|-----------|----------|
|                        | 2008 | 2009      | June 2010 | Dec 2010 |
| Renegotiated Ratio (%) | 3.64 | 5.20      | 3.62      | 6.23     |

From the table it is understood that 84.1% of the portfolio is free of any overdue installments. 1 - 4 installment overdue amounts are 8% of the portfolio. The rest 8% of the portfolios fall under 5-100 installment overdue.

|                             | Γable 17:   |       |
|-----------------------------|-------------|-------|
| Ageing                      | 30-Dec-2010 | %     |
| Past due 0 installment      | 36,857.2    | 84.1% |
| Past due 1-4 installment    | 3,498.1     | 8.0%  |
| Past due 5-12 installment   | 252.9       | 0.6%  |
| Past due 13-25 installment  | 1,059.3     | 2.4%  |
| Past due 51-100 installment | 2,173.6     | 5.0%  |
| Total                       | 43,841.0    | 100%  |

# PROVISIONING AND RESERVE

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

|                                    | Table 18: |      |          |  |
|------------------------------------|-----------|------|----------|--|
|                                    | 2008      | 2009 | Dec 2010 |  |
| 4Provision Expense Ratio (PER) (%) | 3.93      | 4.67 | 4.37     |  |

<sup>&</sup>lt;sup>4</sup> Provision expense ratio = Loan loss provision expense / Average Gross Ioan.



The provision expenses ratio increased from 3.93% in 2008 to 4.37% in 2010, showing that BRAC has kept proper reserve balancing its portfolio quality. In the table, principal outstanding of loan portfolio of BRAC as on 30 Dec 2010 is categorized based on aging as mentioned below. The best practice rate of provision for each category as well as required provision is also calculated.

Table 19:

| Table 15.  |                    |
|--|--------------------|
| Particulars  | Amount in BDT mill |
|  |                    |
| Current Loan Loss Reserve as on 30 Dec 2010  | 4,894.28           |
| Required Loan Loss Reserve ( As per Best Practice)  Excess Reserve (BRAC Current Loan Loss Reserve over the Required Provision of Best | 4,299.25<br>595.05 |
| Practice )   |                    |
| Excess as % of Current Loan Loss Reserve   | 12.16%             |
| Excess as % of Loan Portfolio  | 1.36%              |
|  |                    |

It is found from the table above that BRAC current loan loss reserve is 12.16% higher than required (Best Practice basis) loan loss reserve and the excess is 1.36% of loan portfolio.

Table 20:

| STATE OF THE PARTY OF        | 2008 | 2009  | June 2010 | Dec 2010 |
|------------------------------|------|-------|-----------|----------|
| 5Loan Loss Reserve Ratio (%) | 7.50 | 10.20 | 11.09     | 11.21    |

The loan loss reserve ratio reflects accumulated provision expenses (minus write-offs), which increases to 11.21% in Dec 2010 from 10.20% in Dec 2009. However as mentioned earlier, BRAC keeps excess reserve corresponding to its aging of portfolio.

# RISK COVERAGE RATIO

Table 21

|                          | Table 21. |        |           |          |  |
|--------------------------|-----------|--------|-----------|----------|--|
| 5.5 1 4 1 5 2 数据第        | 2008      | 2009   | June 2010 | Dec 2010 |  |
| 6Risk Coverage Ratio (%) | 97.60     | 127.44 | 138.09    | 140.41   |  |

The Risk Coverage Ratio shows that in December 2010 it is 140.41% (in June 2010 it is 138.09%) of the Portfolio at Risk is covered by actual loan loss reserves. The reserve ratio has increased. The Risk Coverage Ratio is analyzed in conjunction with Portfolio at Risk and Write-offs, since all three are interdependent. A PaR [>=30 Days] after adjusting renegotiated loan of 7.95% of loan portfolio on Dec 2010 cannot be termed as fully safe because loans are not overdue by only a few days. Still write-offs loans reduce Portfolio at Risk in a 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.

| п   | $\Gamma_{\sim}$ | h | 1- | 22 |  |
|-----|-----------------|---|----|----|--|
| - 1 | d               | u | ıe | 11 |  |

| <b>於西班牙記事。斯森</b>     | 2008 | 2009 | June 2010 | Dec 2010 |
|----------------------|------|------|-----------|----------|
| 7Write-Off Ratio (%) | 1.61 | 2.16 | 2.56      | 3.41     |

The Portfolio at Risk PaR [>=30 days] ratio from 2008 to 2010 has increased so is write-off loan. BRAC write-off loans which are overdue less than 350 days, than PaR [>=30 days] (before adjusting renegotiated loan) thus decrease to 1.72% in Dec 2010 from 2.78% in Dec 2009.

<sup>5</sup> Loan loss reserve ratio = loan loss provision/ loans to members.

<sup>&</sup>lt;sup>6</sup> Risk coverage ratio = Loan loss reserve / (Outstanding loans on arrear + refinance loan).

<sup>&</sup>lt;sup>7</sup> Write off ratio = Write off loan / Average gross loan



#### **EFFICIENCY AND PRODUCTIVITY**

Table 23

|                              |       | able 23: |           |          |
|------------------------------|-------|----------|-----------|----------|
| 中 生素检查温度速                    | 2008  | 2009     | June 2010 | Dec 2010 |
| *Efficiency Ratio (%)        | 16.96 | 18.25    | 15.40     | 14.12    |
| 9Operating expense ratio (%) | 11.02 | 10.64    | 10.05     | 11.72    |

The asset size of BRAC stands at BDT 48,021.6 million on 30 Dec 2010 indicates its large size. Loan size has a more decisive impact on BRAC efficiency than economies of scale; 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 Dec 2010 is BDT 43,841 million (30 June 2010 is BDT 44,886 million), which was disbursed to 8.12 million members. BRAC'S operating expense ratio was 11.72% up to Dec 2010 (30 June 2010: 10.05%) indicating increase in administrative expense which grew 15.01% from previous year.

#### OTHER INDICATORS

On an average BRAC incurred 6.96% cost for BDT 100.00 money lent. Average cost per loan made is BDT 850

Table 24:

| Table 24.  |       |        |           |          |  |  |
|--|-------|--------|-----------|----------|--|--|
| 15. 10. 15. 26. 10. 10. 10. 10. 10. 10. 10. 10. 10. 10 | 2008  | 2009   | June 2010 | Dec 2010 |  |  |
| 10Cost Per Unit of Money Lent (%)                      | 5.3   | 5.9    | 6.3       | 6.9      |  |  |
| 11Cost Per Loan Made                                   | 881.9 | 1133.1 | 787       | 913      |  |  |
| Portfolio Per Credit Staff (in million)                | 2.8   | 2.9    | 2.9       | 2.4      |  |  |
| Borrower Per Staff                                     | 398   | 416    | 389       | 303      |  |  |
|  |       |        |           |          |  |  |

The trend of cost per unit of money lent indicates that BRAC's efficiency lessens through not 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 table 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.

Table 25:

|                               |      | Tubic Est |           |          |
|-------------------------------|------|-----------|-----------|----------|
|                               | 2008 | 2009      | June 2010 | Dec 2010 |
| 12Financial Expense Ratio (%) | 8.21 | 8.46      | 6.93      | 6.32     |

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 can

<sup>8</sup> Efficiency ratio = Financial cost of operation / Total long term liabilities

<sup>&</sup>lt;sup>9</sup>Operating expense ratio = Operating expense / Average Gross loan

Cost per unit of money lent = Operating cost / Loan disbursed.

Cost per loan made = Operating cost / Number of loan made

 $<sup>^{12}</sup>$  Financial expense ratio = Financial expense / Average asset



be determined by adding the Financial Expense Ratio, Provision Expense Ratio and Operating Expense Ratio. As of Dec 2010, Financial Expense Ratio is 6.32%, Provision Expense Ratio is 11.21% and Operating Expense Ratio is 11.72% through these ratios minimum lending rate for BRAC in 2010 can be calculated which would be (6.32% + 11.21% + 11.72%) = 29.25%

Table 26:

| TRUIT EU.          |                                     |
|--------------------|-------------------------------------|
| Amount in BDT Mill | <b>%</b>                            |
| 14,824.52          | 30.87                               |
| 19,966.01          | 41.58                               |
| 13,231.16          | 27.55                               |
| 48,021.69          | 100.00                              |
|                    | 14,824.52<br>19,966.01<br>13,231.16 |

BRAC finances itself through savings observed in above table. The funding structure of BRAC Micro Credit function as of Dec 2010 is given where 41.58% of its portfolio is financed through member's savings and 30.87% is from debt.

Table 2

|                            | Table 27:             |         |
|----------------------------|-----------------------|---------|
| Funding structure Dec 2010 |                       |         |
|                            | Amount in BDT Million | %       |
| Current Liability          |                       |         |
| Savings Deposit VO members | 4,734.71              | 9.86%   |
| Term loan                  | 8,532.07              | 17.77%  |
| Other debt                 |                       |         |
| Sub Total                  | 13,266.78             | 27.63%  |
| Long Term Liability        |                       |         |
| Savings Deposit VO members | 15,231.30             | 31.72%  |
| Term loan                  | 6,292.45              | 13.10%  |
| Securitized financing      |                       |         |
| Sub Total                  | 21,523.75             | 44.82%  |
| Capital fund               |                       | 11.02/0 |
| Donor Fund                 | 1,999.44              | 4.16%   |
| Retained Surplus           | 11,231.72             | 23.39%  |
| Sub Total                  | 13,231.16             | 27.55%  |
| Capital & Liabilities      | 48,021.69             | 100.00% |
|                            |                       |         |

On 30 Dec 2010 BRAC reliance on savings mobilization increased. However, expansion of micro finance operation leads the savings mobilization and to increase its leverage position further.

# LIQUIDITY POSITION

The liquidity ratio indicates BRAC's ability to meet short-term liabilities and unforeseen expenses. BRAC's liquidity ratio during 2010 indicates that it has developed the way of accurately predicting cash needs.

Table 28:

|                                   | 2008 | Jun-09 | Dec-09 | Jun-10 | Dec-10 |
|-----------------------------------|------|--------|--------|--------|--------|
| Liquidity Ratio (%)               | 6.78 | 8.34   | 12.28  | 11.87  | 9.98   |
| Liquid Assets to Total Assets (%) | 5.36 | 6.55   | 9.34   | 8.84   | 7.23   |



Though the ratios are below 20%, this is 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 30 Dec 2010, it had 63 credit line facilities with different public and private commercial banks. Term loan outstanding on 30 Dec 2010 is BDT 12,620 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.

#### LEVERAGE AND OTHER POSITION

As BRAC is developing and maturing, its' leverage ratio decreases further which reached at 2.6 in Dec 2010.

|                              | Table 2 | 29:   |           |          |
|------------------------------|---------|-------|-----------|----------|
| <b>建筑企业企业企业企业</b>            | 2008    | 2009  | June 2010 | Dec 2010 |
| Total Liability/ Equity      | 3.77    | 3.18  | 2.92      | 2.63     |
| 13Capital Adequacy Ratio (%) | 22.17   | 26.41 | 27.98     | 29.70    |
| Borrowed Fund / Equity       | 2.15    | 1.58  | 1.41      | 1.12     |

In fact, BRAC has access in 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.

| Table 30:                             |       |       |           |          |
|---------------------------------------|-------|-------|-----------|----------|
|                                       | 2008  | 2009  | June 2010 | Dec 2010 |
| 14Savings Outstanding Ratio (SOR) (%) | 35.18 | 41.78 | 42.04     | 45.54    |
| External Loan to Savings Deposit (%)  | 133.4 | 93.5  | 93.8      | 66.4     |

Savings Outstanding Ratio (SOR) BRAC's efficiency in savings mobilization from its savings fund and marked as strength of the institution. BRAC's ability has increased to fund its load from its savings. External Loan to Savings Deposit indicates less dependence on volatile external loans rather than stable source (deposit). As of 30 Dec 2010, the ratio was 66.4% trend indicates that BRAC is dependent lesser on volatile external sources. Around 30.9% 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. Capital Adequacy Ratio of BRAC is 29.7% in 30 Dec 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 4.24:1 times in 30 Dec 2010.

#### **PROFITABILITY**

BRAC is a non-profit organization, the ROAE is used here as a proxy for commercial viability. ROAE of BRAC MFI is stable in Dec 2010. It can be marked that increased in profitability in Dec 2010 was due to surplus income and less borrowing cost and provision.

Table 31:

|                                | 2008  | 2009  | June 2010 | Dec 2010 |
|--------------------------------|-------|-------|-----------|----------|
| Return on Average Equity (%)   | 11.17 | 16.25 | 15.43     | 15.28    |
| Return on Average Asset (%)    | 2.33  | 3.65  | 3.62      | 3.93     |
| 15 Average Portfolio Yield (%) | 25.37 | 26.49 | 26.63     | 26.86    |

In Dec 2010 BRAC's total administrative cost increased 15% from Dec 2009. Portfolio Yields measures Indicates BRAC's ability to generate cash from interest, fees, and commissions on its gross loan portfolio. In Dec 2010 average portfolio yield slightly increased to 26.86% as the affect of 0.07% increase in service charge on loan and – 1.31% growths in average gross loan. In total, Portfolio Yield shows BRAC's receives as interest payments on its loans.

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<sup>13</sup> Capital Adequacy ratio = Total capital fund /(Total assets - cash & banks)

<sup>&</sup>lt;sup>14</sup> Total savings / Total principal outstanding.

<sup>15</sup> Average Portfolio Yield = Service charge on loan/Average Gross Loan



#### SUSTAINABILITY

Operating Self Sufficiency: Operating self-sufficiency ratio of Dec 2010 stood at 118.14% (30 June 2010: 116.63%). It shows the ability of BRAC to cover costs of operations with internally generated income. BRAC earned 118.14% revenue to cover the organization costs.

Financial Self Sufficiency: The Financial self-sufficiency ratio of BRAC stood at 107.6% up to Dec 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) "Program" Program (Mentioned in Table below). 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).

Table 32:

|                             |                | Table 52.     |                |                |      |
|-----------------------------|----------------|---------------|----------------|----------------|------|
| JAN 2009 - DEC 2009         | DABI           | UNNOTI        | PROGOTI        | TOTAL          |      |
| 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 | 6    |
| Savings Deposit             | 12,403,599,028 | 2,571,685,562 | 3,423,333,258  | 18,398,617,848 | 2009 |
| Active borrower             | 5,229,311      | 767,644       | 244,373        | 6,241,328      | 0.00 |
| Average loan size(accounts) | 11,298         | 20,420        | 121,751        | -              |      |
| Jan 2010 - June 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 | 2010 |
| Active borrower             | 5,701,718      | <u></u>       | 239,830        | 5,941,548      | 72   |
| Average loan size(accounts) | 13,407         | -             | 133,848        | =              |      |

**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 54% in Dec 2010 (55.45% in June 2010) and which was around 65.03% in 2007.

Table 33: Component wise Loan Portfolio 2010

| Components Wise               | Amount in BDT<br>Million | *      |
|-------------------------------|--------------------------|--------|
| Rural Micro Credit Borrowers  | 23,688.09                | 54.03  |
| Urban Micro Credit Borrowers  | 1,270.30                 | 2.90   |
| Hard Core Poor Borrowers      | 370.76                   | 0.85   |
| Micro Entrepreneurs Borrowers | 18,511.90                | 42.23  |
| Total                         | 43,841.05                | 100.00 |

The loan components are classified as Current Portion, Regular, Non Performing Loan and Renegotiated loan in the following table. It showed component wise loan break up in actual as well as in percentages of total portfolio i.e. BDT 43,641 million is presented, which gives us an insight about the portfolio quality of BRAC Micro finances operation.



Table 34: Classification of Loan Portfolio

| Loans to VO members<br>2010 | Rural Micro<br>Credit<br>Borrowers | Urban Micro<br>Credit<br>Borrowers | Hard Core Poor<br>Borrower | Micro<br>Entrepreneurs<br>Borrowers | Total     |
|-----------------------------|------------------------------------|------------------------------------|----------------------------|-------------------------------------|-----------|
| Current Portion             | 21,058.67                          | 1,155.44                           | 323.87                     | 17,161.56                           | 39,699.54 |
| Regular                     | 0.07                               |                                    | 0.00                       | 42.58                               | 42.65     |
| Non Performing Loan         | 891.38                             | 46.65                              | 13.76                      | 217.11                              | 1,168.89  |
| Renegotiated Loan           | 1,689.34                           | 28.13                              | 25.12                      | 986.98                              | 2,729.57  |

Table 35:

| Loans to VO members<br>2010 | Rural Micro<br>Credit<br>Borrowers | Urban Micro<br>Credit<br>Borrowers | Hard Core<br>Poor<br>Borrower | Micro<br>Entrepreneurs<br>Borrowers | Total   |
|-----------------------------|------------------------------------|------------------------------------|-------------------------------|-------------------------------------|---------|
| Current Portion             | 48.25%                             | 2.65%                              | 0.74%                         | 39.32%                              | 90.97%  |
| Regular                     | 0.00%                              | 0.0%                               | 0.00%                         | 0.10%                               | 0.1%    |
| Non Performing Loan         | 2.04%                              | 0.11%                              | 0.03%                         | 0.50%                               | 2.68%   |
| Renegotiated Loan           | 3.87%                              | 0.06%                              | 0.06%                         | 2.26%                               | 6.25%   |
| Total                       | 54.17%                             | 2.82%                              | 0.83%                         | 42.18%                              | 100.00% |

Sector wise micro credit loans portion: BRAC's total loan portfolio BDT 43,841 mill composition (Net of Provision) is divided in terms of sector. It is found that in 30 Dec 2010, 10.5% of its total loan portfolio is in agricultural sector which was 14.0% in 2008. There is 38.4% loan disbursed in Rural Trading sector (which was 1.2% in June 2010). BRAC operates in 64 districts of Bangladesh. In Dec 2010 maximum and minimum concentration of portfolio was 4.6% in Comilla and 0.2% in Bandarban district. Average concentration of loan disbursement of each district is 7.3% in Dec 2010 of total portfolio. The portfolios are well diversified in terms of program (program diversification), area office (geographical diversification), sector (sectoral diversification) and activity (activity diversification).

Table 36:

| Sector                | on 30 December 2010 |               |  |  |  |
|-----------------------|---------------------|---------------|--|--|--|
|                       | Amount ( Net of     | %             |  |  |  |
| [a] 基立图表 / 图》 · 《 图 图 | Provision)          | <b>建</b> 、建筑金 |  |  |  |
| Agriculuture          | 4,607.86            | 10.51         |  |  |  |
| Cottage Industry      | 261.32              | 0.60          |  |  |  |
| Fisheries             | 161.02              | 0.37          |  |  |  |
| Food Processing       | 812.81              | 1.85          |  |  |  |
| Health                | 12.15               | 0.03          |  |  |  |
| Housing               | 6.41                | 0.01          |  |  |  |
| Livestock and Poultry | 440.00              | 1.00          |  |  |  |
| Miscellaneous         | 405.54              | 0.93          |  |  |  |
| Rural Trading         | 16,852.45           | 38.44         |  |  |  |
| Rural Transoport      | 136.78              | 0.31          |  |  |  |
| Sericulture           | 90.23               | 0.21          |  |  |  |
| UDP                   | 1,498.08            | 3.42          |  |  |  |
| MELA                  | 18,511.90           | 42.23         |  |  |  |
| Services              | 44.52               | 0.10          |  |  |  |
| Total                 | 43,841.05           | 100.00        |  |  |  |



# Asset Liability Matching:

Table 37: Asset Liability Maturity Structure (for all balance sheet position) - 2010

Amount in RDT mill

|                                   |               |            |                 | Aitti        | built in BDT if | 1111     |
|-----------------------------------|---------------|------------|-----------------|--------------|-----------------|----------|
|                                   |               |            | Amount in BDT M | illion       |                 |          |
| 30 December 2010                  | Up to 1 Month | >1<3 Month | >3<12 Month     | >12<60 Month | >60 Month       | Total    |
| Current Asset                     | 5,381.2       | 8,725.3    | 29,035.5        | 876.1        | =               | 44,018.1 |
| Net Loans outstanding             | 193.7         | 383.2      | 209.4           | 197.7        |                 | 983.9    |
| Fixed Asset at costs              | 25.2          | 50.3       | 226.5           | 1,207.9      | 1,509.8         | 3,019.7  |
| Total Assets                      | 5,600.1       | 9,158.8    | 29,471.4        | 2,281.6      | 1,509.8         | 48,021.7 |
| Current Liabilities               | 1,616.6       | 3,597.4    | 8,360.8         | -            |                 | 13,574.8 |
| Long Term Liabilities             | -             |            | -               | 21,215.7     | ≦               | 21,215.7 |
| Total Capital Fund                | -             | -          | -               | 13,231.2     | 2               | 13,231.2 |
| Liabilities and Capital           | 1,616.6       | 3,597.4    | 8,360.8         | 34,446.9     | =               | 48,021.7 |
| Net Gap                           | 3,983.4       | 5,561.4    | 21,110.5        | (32,165)     | 1,510           |          |
| Net Liquidity as % of Total Asset | 8.30%         | 11.58%     | 43.96%          | -66.98%      | -               | 17       |
| Cumulative Liquidity Gap          | 3,983.4       | 9,544.9    | 30,655.4        | (1,510)      | -               | -        |
| Cumulative Liquidity Gap as % of  |               |            |                 |              |                 |          |
| Total Asset                       | 8.30%         | 19.88%     | 63.84%          | -3.14%       |                 |          |

In the Table 37 Asset & Liability matching of different maturity ladder for the total balance sheet position and interest sensitive position of BRAC on 30 Dec 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 implies strong liquidity position of BRAC. Only in the >12<60 month bucket BRAC has negative net liquidity gap around BDT 32,165 million and cumulative liquidity gap was BDT 1,510 million.

Table 38: Asset Liability Maturity Structure (Interest rate sensitive asset & liability) - 2010

Amount in BDT mill

| 1   |              |            |             |              |           | DD 1 111111 |
|---|--------------|------------|-------------|--------------|-----------|-------------|
|   | Upto 1 month | >1<3 month | >3<12 month | >12<60 month | >60 month | Total       |
| Total current asset                       | 5,381.19     | 8,725.31   | 29,035.51   | 876.06       |           | 44,018.07   |
| Interest sensitive asset                  | 5,575.48     | 9,108.41   | 29,244.89   | 1,073.75     | 7.1       | 45,002.53   |
| Current liabilities                       | 1,616.65     | 3,597.36   | 8,360.83    | -            |           | 13,574.84   |
| Long term liabilities                     | 2            |            |             | 21,215.70    |           | 21,215.70   |
| Interest sensitive liabilities            | 1,616.65     | 3,597.36   | 8,360.83    | -            | -         | 13,574.84   |
| Net liquidity gap                         | 3,958.83     | 5,511.05   | 20,884.06   | 1,073.75     |           | 31,427.69   |
| Cumulative liquidity Gap                  | 3,958.83     | 9,469.88   | 30,353.94   | 31,427.69    | 31,427.69 |             |
| Net liquidity gap as % of Total           | 8.80%        | 12.25%     | 46.41%      | 2.39%        |           |             |
| Asset<br>Cumulative liquidity Gap as % of | 8.80%        | 21.04%     | 67.45%      | 69.84%       | 69.84%    |             |
| Total Asset                               |              |            |             |              |           |             |

It is seen in the Table 38 that for the interest sensitive case up to 12 months bucket, there is no negative gap. Positive gap implies strong liquidity position of BRAC. From commercial point of view, if rates for the positive gap bucket rises and rates for the negative gap bucket declines, the portfolio will incur a mark-to-market loss on both gaps and vice versa. But BRAC's lending model is not to boost revenue from charging higher rate to its borrowers rather to cater loans to the poor and poorest to uplift the socio economic condition of the marginal groups and through efficient collection mechanism expand its outreach base.

# **■ ENTERPRISES & INVESTMENTS**

BRAC's Social Enterprises have evolved to support its core program. These enterprises enable BRAC to attain its vision and mission statements by sustaining the development interventions and creating job opportunities. Thus contribution made to alleviate poverty from the society. 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% are women. In 2010, revenue from "Aarong" stood at BDT 3,397.3 million, registering a 3-year CAGR of 6.8%.



Table 39: Aarong

|                                       |        |        | Amount in BD | T mill |
|---------------------------------------|--------|--------|--------------|--------|
| Particulars                           | 2010   | 2009   | 2008         | 2007   |
| Total Revenue                         | 3397.3 | 2701.9 | 2395.3       | 1977.5 |
| Growth (%)                            | 25.7   | 12.8   | 21.1         | 16.3   |
| Net surplus for the year              | 703.9  | 508.6  | 405.0        | 315.6  |
| Growth (%)                            | 38.4   | 25.6   | 28.4         | 6.9    |
| Cost service provided as % of Revenue | 79.6   | 82.3   | 82.9         | 82.4   |

Cost of service decreases slightly from previous year. Hence, its net surplus in 2010 stood at BDT 703.9 million registering a 3 year CAGR of 10.6%.

Table 40: Aarong

|                              |        | Amount | in BDT mill |
|------------------------------|--------|--------|-------------|
|                              | 2010   | 2009   | 2008        |
| Total Asset                  | 2178.8 | 1646.2 | 1422.4      |
| Growth (%)                   | 32.4   | 15.7   | 30.3        |
| Total Liabilities            | 410.0  | 356.5  | 386.0       |
| Net Assets - Capital fund    | 1768.8 | 1289.7 | 1036.4      |
| Growth (%)                   | 37.2   | 24.4   | 24.3        |
| ROAA (%)                     | 36.8   | 33.2   | 32.2        |
| Liability to Net surplus (x) | 58.2   | 70.0   | 95.3        |
| Liability to Asset (%)       | 18.8   | 21.6   | 27.1        |
| Efficiency Ratio (%)         | 79.6   | 82.3   | 82.9        |
| EBITDA / Sales (%)           | 20.7   | 18.8   | 16.9        |
| EBITDA / Sales (%)           | 20.7   | 10.0   | 10          |

In line with the growth of revenue and net surplus its asset base stood at BDT 2178.8 million registering a growth of 32.4% from previous year. Low leverage with high brand strength of "Aarong" it has became 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 1,768.8 million which was allocated to BRAC programs.

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. Its revenue stood at BDT 1,891.1 million posing CAGR 17.7 % over the last 3-year period. There was growth of revenue and cost control mechanism (Cost of Service as % of Revenue was steady from 91.9% to 91.5% in 2010 from 2009), the net surplus stood at BDT 163.3 million registering CAGR of 11.2% during 2008-10.

Table 41: BRAC DAIRY

|        |                                 | Amount in BDT mill   |  |
|--------|---------------------------------|--|--|
| 2010   | 2009                            | 2008   | 2007   |
| 1891.1 | 1460.8                          | 1283.3   | 910.7  |
| 29.5   | 13.8                            | 40.9   | 39.5   |
| 163.3  | 123.9                           | 114.5  | 78.8   |
| 31.7   | 8.2                             | 45.3   | 270.1  |
| 91.5   | 91.9                            | 91.1   | 91.4   |
|        | 1891.1<br>29.5<br>163.3<br>31.7 | 1891.1     1460.8       29.5     13.8       163.3     123.9       31.7     8.2 | 2010         2009         2008           1891.1         1460.8         1283.3           29.5         13.8         40.9           163.3         123.9         114.5           31.7         8.2         45.3 |



Table 42: BRAC DAIRY

Amount in RDT mill

|                          | 1     |       | Amo   | unt in BUT mill |
|--------------------------|-------|-------|-------|-----------------|
| Particulars              | 2010  | 2009  | 2008  | 2007            |
| Total Asset              | 734.9 | 581.0 | 579.1 | 452.4           |
| Growth (%)               | 26.5  | 0.32  | 28.0  | 48.6            |
| Total Liabilities        | 109.0 | 88.5  | 148.6 | 136.4           |
| Growth (%)               | 23.2  | -40.0 | 9.0   | 1.2             |
| Net asset - Capital Fund | 625.9 | 492.5 | 430.5 | 316.0           |
| Growth (%)               | 27.1  | 14.4  | 36.2  | 86.4            |
| ROA (%)                  | 24.8  | 21.4  | 19.8  | 17.4            |
| Liability/Net surplus(x) | 0.7   | 0.7   | 1.3   | 1.7             |
| Liability to Asset (%)   | 14.8  | 15.2  | 25.7  | 30.1            |
|                          |       |       |       |                 |

The ratios indicate increase in profitability level from 2008 to 2010 and the increased profitability attributed to the high revenue growth, low leverage and cost control. As of December 2010, capital fund stood at BDT 625.9 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 1,600 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 ton 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). 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.

Table 43: BRAC Printing & Packaging

Amount in BDT mill **Particulars** 2010 2009 2008 2007 Revenue 838.1 787.1 862.8 790.1 6.5 -8.8 Revenue Growth (%) 9.2 46.6 Net surplus for the year 72.1 48.4 46.4 38.9 48.8 4.3 19.5 -10.5Net surplus Growth (%) Cost of service as % of Revenue 91.4 93.9 94.4 94.9

Table 44: BRAC Printing & Packaging

Amount in BDT mill **Particulars** 2010 2009 2008 2007 Total Assets 280.0 218.9 242.3 183.1 Growth (%) 15.5 10.7 20.0 224.0 **Total Liabilities** 70.4 51.5 41.5 43.8 177.3 Net Assets - Capital Fund 209.6 190.8 139.4 Growth (%) 9.8 7.6 27.0 736.0 ROAA 27.6 21.0 21.2 21.2 Liability / Net surplus (X) 1.0 1.0 1.0 1.1 Liability to Asset 25.1 21.3 19.0 23.9



The table 44 indicates the high profitability level and low leverage position of BRAC Printing & Packaging. The capital fund of this venture increased to BDT 209.6 million in 2010 from BDT 190.8 million in 2009 which implies the high viability of the project.

BRAC INVESTMENTS: 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 Investments in the related undertakings are represented by its share in the respective net tangible assets, goodwill and loans extended.

Table 45: BRAC Investments in related undertakings

| Related undertakings (%)                 | 2010  | 2009  | Principal activities         |
|--|-------|-------|------------------------------|
| BRAC Bank Ltd.                           | 43.7  | 37.1  | Banking<br>Business          |
| BRAC Industries Ltd.                     | 99.9  | 99.9  | Cold Storage                 |
| BRAC BD Mail Network<br>Ltd.             | 20.0  | 39.7  | Internet service<br>provider |
| BRAC Services Ltd.                       | 100.0 | 100.0 | Hospitality                  |
| Delta Brac Housing<br>Finance Corp. Ltd. | 20.3  | 20.3  | Housing finance              |
| Documenta TM Ltd.                        | 70.0  | 80.0  | Software development         |
| BRAC Karnophull Tea<br>Company Ltd.      | 99.9  | 99.9  | Tea Plantation               |
| BRAC Kaiyachara Tea<br>Estate            | 99.9  | 99.9  | Tea Plantation               |
| BRAC Banshkhali Tea<br>Company Ltd.      | 99.9  | 99.9  | Tea Plantation               |
| BRAC Kodala Tea<br>Company Ltd.          | 99.1  | 99.1  | Tea Plantation               |
| Bangladesh Netting Factory               | 94.0  | 94.0  | Poultry processing           |
| BRAC Asset Management<br>Company Ltd.    | 26.0  |       | anagement of Assets          |

# **■** BRAC INTERNATIONAL

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.

# OTHER DIVISIONS

BRAC invests for developing the capacity of its staff and our volunteers. The 170 experts of the Training Division take a participatory approach and adapt new training methods and technology to strengthen its operational efficiency. The division provides regular, program-related training and offers continuous skills development opportunities through 20 Training and Resource Centers (TARCs) spread across the country. Two BRAC Centers for Development Management supplement the TARCs. The Training Division has excellent reputation and its services are requested by a wide range of development actors. In 2010, the Division began a year long program for World Vision staff.

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

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United Nations Convention against corruption and is supporting the Cabinet Division in formulating a National Integrity Strategy for Bangladesh. Donors of BRAC education 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 is the Chair person of the Governing Body. All the other members of the Governing Body are 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 the governance of BRAC. During 2010, two meetings of the Governing Body and Annual General Meeting of the General Body were held. In 2010 BRAC governing body adopted Child protection policy.

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 held 4 meetings during 2010. Moreover, in 2010 BRAC 9,230 cost centers (11,869 cost center: 2009) were under audit coverage. Cost centers means where cost incurred and reported separately (program wise). BRAC internal audit department has more than 200 staff about 80% staff are CA background.

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 each 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: 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. 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. BRAC promoted gender equality within the organization.

HUMAN RESOURCE DIVISION: Over 95% of BRAC's staff is based in the field. BRAC have therefore evolved policies and procedures that allow its employees to operate efficiently while ensuring that the rights of all are protected. BRAC practices zero tolerance for sexual harassment and is an equal opportunity employer. In 2010, BRAC revised its "Human Resources Policy' and adopted a code of conduct for the protection of children.

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

| RATING  | DEFINITION   |
|---|--|
| AAA<br>Triple A   | Extremely Strong Capacity & Highest Quality. 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.  |
| AA <sub>1</sub> , AA <sub>2</sub> ,<br>AA <sub>3</sub> *<br>Double A  | Very Strong Capacity & Very High Quality. 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.   |
| A <sub>1</sub> , A <sub>2</sub> , A <sub>3</sub><br>Single A          | Strong Capacity & High Quality. 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.   |
| BBB <sub>1</sub> , BBB <sub>2</sub> ,<br>BBB <sub>3</sub><br>Triple B | Adequate Capacity & Medium Quality. 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. |
| BB <sub>1</sub> , BB <sub>2</sub> , BB <sub>3</sub><br>Double B       | Inadequate Capacity & Substantial Credit Risk. 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 <sub>1</sub> , B <sub>2</sub> , B <sub>3</sub><br>Single B          | Weak Capacity & High Credit Risk. 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.                         |
| CCC <sub>1</sub> , CCC <sub>2</sub> ,<br>CCC <sub>3</sub><br>Triple C | Very Weak Capacity & Very High Credit Risk. 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.   |
| CC<br>Double C  | Extremely Weak Capacity & Extremely High Credit Risk. 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.   |
| C<br>Single C   | Near to Default. 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.                           |
| D   | Default. 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)

| RATING                         | DEFINITION   |
|--------------------------------|--|
| ST-1<br>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.   |
| ST-2<br>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.   |
| ST-3<br>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.  |
| ST-4<br>Below Average<br>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. |
| ST-5<br>Inadequate<br>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.  |
| ST-6<br>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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