

# CREDIT RATING REPORT

AAA

AA2

BBB1

A3

BB2

CCC1

CRAB RATING PORTRAYAL



CREDIT RATING AGENCY OF BANGLADESH LIMITED

## Credit Rating Report (Surveillance)

### BRAC

Ratings:		
Long Term	: AAA	
Short Term	: ST-1	
Outlook	: Stable	
Previous Ratings		
Date of Ratings	Long Term	Short Term
31 October 2013	AAA	ST-1
23 October 2012	AAA	ST-1

Date of Rating : 31 August 2014  
Validity : 30 June 2015

**Rating Based on:** Audited financial statements up to 31 December 2013 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](http://www.crab.com.bd))

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#### Highlights

BRAC (Micro Finance)	Dec-13	Dec-12	Dec-11
No of Active Members	5.72 Mil	5.84 Mil	6.77 Mil
No of Active Borrowers	4.60 Mil	4.19 Mil	4.95 Mil
No of Village Organization	281,336	279,175	284,347

BRAC (Micro Finance)	Dec-13	Dec-12
Amount in BDT Mil		
Loan Portfolio	71,447.88	59,960.14
Members Savings	29,034.85	24,907.28
Total Asset	78,608.69	62,863.13
Net Surplus	4,809.63	3,505.11
Portfolio Yield (%)	26.44	26.24
PaR >30 days (%)	6.12	5.88
Capital Adequacy (%)	30.21	30.23
ROAA (%)	6.80	5.95
Operational Self Sufficiency (%)	137.10	129.71

#### ■ Rationale

Credit Rating Agency of Bangladesh Limited (CRAB) has retained 'AAA' (Pronounced Triple A) rating in the Long Term and ST-1 rating in short term of BRAC. MFIs rated 'AAA' have extremely strong capacity to meet their financial commitments. 'AAA' is the highest issuer

credit rating assigned by CRAB. 'AAA' rated entities are judged to be of the highest quality, with minimal credit risk. MFIs rated in this category are considered to have the highest capacity for timely repayment of obligations. MFIs rated in this category are characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds. Rating is based on BRAC's large scale of operation; effective and efficient allocation and utilization of resources; contribution to uplift the socio economic condition of the country through education, health services, social and legal awareness with its services to underprivileged, micro credit loan programs for the poor people, strong financial and risk management practices.

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 internal fund generation, and access to alternative sources of funds. BRAC is a development organization dedicated to alleviate poverty by empowering the poor, and helping



them to bring positive changes in their lives by creating opportunities for the underprivileged. Its journey began in 1972 in the newly sovereign Bangladesh, and over the course of evolution, BRAC has been playing a role of recognizing and tackling the many different realities of poverty.

Number of active member of BRAC micro finance operation was 5.84 million as on 31 Dec 2013. Along with "DABI" and "PROGOTI" a new loan scheme was introduced in 2013 named "Borga Chashi" in 2013. Its principal loan outstanding up to Dec 2013 was BDT 71,447.88 million. The loan portfolio grew 24.82% in the same period. Whereas PaR [ $\geq 30$  Days] stood at BDT 4,373.44 million, which was 6.12% of loan portfolio. PaR [ $\geq 30$  days] growth was 24.09% at the end of Dec 2013. Of PaR loans, 4.36% loans belonged to loss category followed by watch list category (1.61% of PaR) and sub-standard (1.56% of PaR). The organization kept its required provision according to MRA regulation at BDT 4,876.37 million balancing its portfolio quality. BRAC microfinance program was mainly funded by members' savings. Of the total funding 41.38% was shared by members' savings followed by capital fund 32.90%, bank loan 21.66% and 4.06% shared by bank overdraft. During FY2013 capital fund grew by 26.32% backed by internal capital generation mainly.

BRAC had 22,618 primary schools up to Dec 2013. Around 10 million students have received basic education and nearly 5.00 million have graduated from BRAC's non-formal primary schools in Bangladesh alone. In 2013, 344,683 children from BRAC Junior schools participated in the junior school completion exam (JSCE). It has achieved a success rate of 88.9 per cent with 6.2 per cent scoring A+. Students from 120 schools, operated by BRAC's local partner NGOs, took part in the primary school certificate examination (PSCE) where pass rate was 99.9%. Around 90.10% of the student achieved A- and above. BRAC has expanded its geographical coverage in hard-to-reach areas, such as Chittagong Hill Tracts, *haors*, *baors*, *chars*, and coastal areas. BRAC has brought primary education to sub-merged area by introducing boat schools. There are 500 boat schools for children. These boat schools pick up teachers and registered students from the nearest settlement and drop them off in their home after classes.

BRAC health care is serving in 47 districts and over 110 million people of Bangladesh. These achievements are made possible by the work and dedication of 112,413 community health volunteers (as of Dec 2013). At present, BRAC runs a network of 30 healthcare destinations, 19 "Shasthya Kendros" and 11 Clinics. In 2013, BRAC treated 11,428 patients of malaria with partnership the Govt. and local NGO's. BRAC is in the stage of establishing three hospitals in Rangpur, Hobigonj and Gazipur by upgrading the existing ones into 50-bed Hospitals between December 2012 and March 2013. BRAC is also enhancing lab facilities turning those into BRAC Diagnostics.

BRAC initiated 'ideal ward', with the assistance of "Polli Shomaj" under its Community Empowerment Program (CEP). There are 13,645 "Polli Shomaj" under CEP program. BRAC's community radio "Pollikontho" 99.2 FM awarded the first position in Family Planning Media Award 2012-13 competition organized by Family Planning Directorate of Ministry of Health & Family Welfare, Government of the People's Republic of Bangladesh in cooperation with UNFPA.

Up to Dec 2013, BRAC WASH program covered 13.60 million households. 2,400 loans provided to rural sanitation entrepreneur. Around 2.09 million un-hygienic latrines converted to sanitary latrines. During the same duration 7,717 teachers were trained on WASH issues and teaching methodology.

BRAC has social enterprises like Aarong, BRAC Dairy; Agro based program and Self Financing Social Development projects etc. During Dec 2013, revenue of "Aarong" stood at BDT 4,748.62 million, registering a 3-year CAGR of 4.59%. Its cost of service as % of revenue decreased 1.91 percentage point from previous year. Hence, Aarong's net surplus in Dec 2013 stood at BDT 774.29 million sharing 14.18% of total BRAC net surplus. Total capital fund of Aarong increased to BDT 2,840.79 million. At present BRAC Dairy and Food projects have 23 distributors and 37 sales centres nationwide. There was deficit growth in net surplus due to significant expenditure in income generating project. BRAC Dairy's (Cost of Service as % of Revenue) ratio increased to 93.59% whereas net surplus stood at BDT 185.86 million in Dec 2013. It shared 2.83% of total BRAC net surplus. However, capital fund of BRAC Dairy increased to BDT 932.82 million in same period. During Dec 2013, 6.26% and 4.04% of total net surplus came from BRAC's self financed social development projects and Agro based program support enterprise respectively. BRAC enterprises allow 50 percent of the financial surplus used in BRAC development program.



The BRAC Investments unit comprises of financially profitable investments and financial service businesses include Delta Brac Housing, BRAC Bank, bKash, Brac tea estate etc that are geared toward generating financial returns. BRAC Investments support the financial sustenance of both BRAC Enterprises and its development programmes by contributing significantly in reducing BRAC's dependency on donors and external funding. Currently 26% of BRAC's overall financial needs are fulfilled by various donation/external sources while the remaining 74% is financed internally by BRAC from the surplus of its enterprises and the dividend from its investments.

#### 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 studies 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, dividends, and repayment of principal, insurance claims or counterparty obligations.

Table 1: AT A GLANCE

BRAC (Micro Finance)	Dec-2013	Dec-2012	Dec-2011	Dec-2010
No of Members	5.72 Mil	5.84 mill	6.77 mill	8.05 mill
No of Village Organization	281,336	279,175	284,347	303,616
No of Borrowers	4.60 Mil	4.19 mill	4.95 mill	5.45 mill
Districted Covered	64	64	64	64
No of Branches	2,018	2,119	2,350	2,350
Loan Outstanding	BDT 71,447 Mil	BDT 59,960 Mil	BDT 52,635 Mil	BDT 43,841 Mil
Members Savings	BDT 29,034 Mil	24,907 BDT Mill	22,364 BDT Mill	19,966 BDT Mill

Table 2: Eligibility Criteria of PKSf

ELIGIBILITY CRITERIA	As of 31 Dec 2013	
	Required	BRAC Actual
Cumulative Loan Collection Ratio (On Total dues)	95%	99.58%
Loan collection Ratio on Current dues (on running 12 month basis)	92%-100%	98.20%
Minimum Liquidity Ratio	10%	7.51%
Minimum Current Ratio	1.50	1.43:1
Minimum Capital Adequacy	20%	30.21%
Minimum Debt Service Coverage Ratio	1.25	1.98
Debt Capital Ratio	9:1	0.78:1
Minimum Rate of Return on Capital	1%	23.26%





Table 3: Micro Finance Operations: Key Financial Ratios of 31 Dec 2013

Capital Adequacy Ratio	Portfolio at Risk (>=30 Days)	Financial expense Ratio	Operational Self Sufficiency	Yield on Portfolio
30.21	6.12	5.92	137.10	26.44
Gearing Ratio (x)	Debt to Equity Ratio	Portfolio per credit staff	Total Income to Average Assets	Total Expenses to Average Assets
2.41	0.94	5,151,253	24.92	18.12
Return on Average Assets	Return on Average Equity	Liquidity Ratio	Capital /Asset Ratio	Deposit to Loan Ratio
6.80	23.26	7.51	29.37	40.39
Risk Coverage Ratio	Gross Loan to Total Assets	Operating Expense Ratio	Current Ratio	Reserve Ratio
111.50	91.45	9.77	1.43	6.83

#### Notes:

1. All figures pertain to the organization's microfinance program as on 31 Dec 2013.
2. 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 31 Dec 2013.
4. 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 2013 have been converted into taka at the exchange rates prevailing at that date. 1 USD = 77.75 Taka.

#### ■ ORGANIZATIONAL BACKGROUND

BRAC was launched in Bangladesh in 1972 as a non government development organization which today reaches more than 135 million people in Africa, Asia and Caribbean through its programs that address poverty, illiteracy, disease and social injustice by providing micro finance, self-employment opportunities, health services, education, gender, agriculture and food security and legal and human rights services. BRAC's vision is a world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential. BRAC's work gives people a chance to transform their lives. BRAC invests in training and building human capacity in each country where it work. BRAC 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 Sir Fazle Hasan Abed, KCMG. It is registered under the Societies Registration Act 1860.

BRAC now operates in more than 69 thousand villages of Bangladesh through its development interventions that range from primary education, essential healthcare, agricultural support and human rights and legal services to microfinance and enterprise development. BRAC offers preventive, curative and reproductive health services to more than 92 million people.



BRAC is now considered the largest non-profit development organization in the world – both by number of employees and people served. Its health programs serve more than 110 million people, its microfinance programs assist more than 8.00 million members, and its education programs reach more than 1.80million children. BRAC tries to use funds from its social enterprises to pilot and spread other types of programs throughout Bangladesh. In Dec 2013, 98.44% of total BRAC net surplus was from BRAC program support enterprises (unrestricted fund) and microfinance program. BRAC's annual expenditure USD 728 million was financed by donors and by BRAC's own fund and external finance. BRAC's internal audit and financial monitoring department also smoothes the path for sustainable social enterprises. BRAC has computerized its entire microfinance program makes easier for it to closely monitor all of its loans and curtail ineffective practices. 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 have been discussed below.

#### ■ BRAC AGRICULTURE AND FOOD SECURITY

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BRAC's agriculture & food security program works with government to ensure food security. This project builds system of production, distribution and marketing of quality seeds at fair price, conduct research to develop better varieties and practices for the agriculture sector. The program also promoted use of efficient farming techniques and proven technologies. Using environmentally sustainable practices, BRAC is helping Bangladesh to become self sufficient in food production. Research and development unit has recently initiated agronomic management of hybrid rice to expedite its extension in unfavorable environments so that rice varieties are resistant to high temperatures can tiller under submerged conditions and can mature faster with improved quality.

##### Highlights of 2013:

- Currently, BRAC agriculture and aquaculture extension activities are operating in 12 districts.
- 84,834 farmers were trained in modern agro technology.
- Produced 9400 MT of seeds between year 2012–13 which covered 25% of market share of hybrid rice.

#### ■ BRAC EDUCATION

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The BRAC Education Program (BEP) began in 1985. BRAC's education program (BEP) has become the largest secular, private education system in the world spreading from Bangladesh to six other countries. Around 4.95 million children have graduated from the BRAC primary school in Dec 2013. Over 700,000 students are enrolled in BRAC primary schools worldwide, which are designed to give a second chance at learning to the disadvantaged students dropped out from the formal education system. Number of primary students was 0.67 million in the same year. Around 10 million students have received basic education and nearly 5.00 million have graduated from BRAC's non-formal primary schools in Bangladesh alone. BRAC has expanded its geographical coverage in hard-to-reach areas, such as Chittagong Hill Tracts, *haors*, *baors*, *chars*, and coastal areas. It has brought primary education to sub-merged area by introducing boat schools. There are 500 boat schools for children. These boat schools pick up teachers and registered students from the nearest settlement and drop them off in their home after classes.

In 2013, BRAC primary school students achieved 99.99% pass rate and 90.10% of the student achieved A- GPA from BRAC schools, operated by the organization and BRAC's local partner NGOs during 2013. A total of 3,318 students, 69 per cent of whom are girls, appeared in the exam and 3,311 amongst them passed the exam, with 325 of them earning GPA 5 or A+. Mainstream secondary schools in Bangladesh have started using BRAC's e-learning methods.

**Pre-Primary School:** BRAC had 15,164 pre-primary schools up to Dec 2013. Number of current student from pre primary schools up to Dec 2013 was 0.43 million. Around 4.35 million students graduate from pre-primary school.

**Primary and Secondary School:** BRAC had 22,618 primary schools up to Dec 2013. Number of students was 670,815 in the same year, whereas 63.9% student was female.





Table 4:

BRAC Primary School	Dec 2013	Dec 2012	Dec 2011	March 2011	June 2010
Currently running	22,618	22,718	24,398	24,398	38,250
Graduates (In Mill)	4.95	4.95	4.95	4.66	4.38
BEP teachers	22,699	38,273	37,567	37,875	35,497

**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 having 202,251 members up to Dec 2013.

#### Highlights of 2013:

1. 344,683 students from BRAC primary schools sat for the primary terminal exam in 2013. Pass rate was 88.9% and 6.2% students achieved a GPA 5.00.
2. Primary School Certificate (PSC) pass rate was 99.9%.
3. 93.9% students received grade A and above in HSC exam who are under "Medha bikash" scholarship program.
4. Cost per child is USD 36.00.
5. There are 2,545 community libraries.

#### Future Plan of BRAC Education:

BRAC plan to implement an additional 1,000 primary schools in the urban slums of Dhaka, Sylhet, Chittagong, Rajshahi, Khulna, Barisal, Rangpur, Jessore, Mymensingh, Comilla, Gazipur, and Norsingdi districts.

#### ■ BRAC HEALTH NUTRITION & POPULATION

BRAC health care is serving over 100 million people of Bangladesh. These achievements are made possible by the work and dedication of 112,413 community health volunteers up to Dec 2013.

#### Highlights of 2013

1. BRAC in partnership with the Government of Bangladesh and NGO's worked in 47 districts to combat tuberculosis. Number of notified cases was 127 per 100,000.
2. BRAC treated 11,428 patients of malaria with the help of Govt. and local NGO.
3. 999,110 women and children with maternal and child health complications were referred to formal healthcare system through BRAC. The use of mobile phones, making pick, and guiding staff to facilitate have strengthen the system reducing delay in seeking care.

#### ■ MIGRATION

In Bangladesh, migration has been declared as a thrust sector and is increasingly being recognized as one of the post-MDG development agendas. However, migrants continue to frequently fall victim to exploitation due to lack of access to information and immigration services, proactive policy support and sufficient social and economic re-integration initiatives. Realizing this, BRAC initiated a comprehensive migration project in 2006 to work with potential and returning workers in 17 migration-prone districts, providing information on safe migration processes, relevant laws and rights, legal support, skills training and social arbitration to recover money from middlemen, who adapted fraudulent practices and cheated migrants.

#### Highlights of 2013:

- In 2013, a total of 529,404 people received immigration related information.
- BRAC was nominated as the convener of migrant's right taskforce as the strategic planning meeting of CARAM Asia held in Malaysia.



## ■ COMMUNITY EMPOWERMENT

BRAC's Community Empowerment Program (CEP) empowers the poor, especially women, by mobilizing communities to translate awareness into action. BRAC 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. In 2013, CEP focused on Polli Shomaj (a community-based institution) based development initiatives, leading communities to take a proactive role in ensuring rural people's access to basic services, proper maintenance of local infrastructure and prevention of violence against women. BRAC also launched a new initiative, 'ideal ward', with the assistance of Polli Shomaj. BRAC's community radio "Pollikontho" 99.2 FM awarded the first position in Family Planning Media Award 2012-13 competition organized by Family Planning Directorate of Ministry of Health & Family Welfare, Government of the People's Republic of Bangladesh in cooperation with UNFPA.

Table 5:

Community Empowerment Program	Dec 2013	Dec 2012	Dec 2011	June 2011	June 2010
No. of Polli Shomaj	13,645	11,617	11,234	11,278	11,830
No. of Union Shomaj	1,220	1,218	1,217	1,089	948
No. of HRLS Graduates	3.80 mill	3.80 mill	3.70 mill	3.60 mill	3.50 mill

In 2013, Number of actions taken against social injustice/human rights violations (eg, dowry, child marriage, domestic violence) was 119,954, engagements in social welfare activities (eg, birth/marriage registrations, rural infrastructure development) was 661,536 and 51,458 person participated in the local power structure (eg, membership in school/market committees and union parishad).

## ■ HUMAN RIGHTS AND LEGAL AID SERVICES (HRLS)

### Highlights of 2013:

BRAC's human rights and legal aid services (HRLS) program is dedicated to protecting and promoting human rights of the poor and marginalized through legal empowerment. This program creates an enabling environment for vulnerable and excluded communities to seek justice through formal and informal systems. HRLS operates 517 Legal Aid Clinics in 61 of 64 districts across Bangladesh. In 2013, 3.84 million women completed human rights and legal education course. In same duration 206,779 cases were received by legal aid clinics out of which 111,628 were resolved by Alternative Dispute Resolutions. BRAC received the Rule of Law Award from the World Justice Project in recognition of the programme's cadre of "barefoot lawyer" who help to empower poor people as a means to end poverty in 2013.

## ■ DISASTER, ENVIRONMENT AND CLIMATE CHNAGE

### Highlights of 2013:

BRAC's disaster, environment and climate change (DECC) program enhances BRAC's institutional capacity to respond to natural disasters, builds competence at the community level on disaster preparedness and increases coping ability during natural disasters with preventive and adaptive strategies. This program provides training, simulation sessions and situation reports to both staff and communities to improve preparedness. Around 11,000 BRAC staff of different BRAC program, 42,503 teachers of BRAC primary school and 250,880 community members were trained on disaster preparedness, first aid and disaster response. When any disaster strikes, emergency relief and rehabilitation support help communities restore their lives and livelihoods.

## ■ TARGETING THE ULTRA POOR (TUP)

BRAC's ultra poor program focuses on improving the economic and social situation of those who are living in extreme poverty, this group struggles to meet its minimal dietary requirements and faces difficulty to reach mainstream anti poverty program like microfinance. In December 2013, the Ultra Poor Program (TUP) reached 56,050 new households through a grant basis and 35,250 households through credit plus grant based approach in 37 districts.





**Highlights of 2013:** Initiated a new initiative addressing climate change related destitution to build ultra poor people's resilience to climate change. The programme covered 22,000 of the new 56,050 households in six southern regions.

#### ■ INTEGRATED DEVELOPMENT

BRAC's integrated development program (IDP) launched in 2012 aims to address the need of the most marginalized and deprived communities who are socially and geographically excluded from the mainstream development interventions in specific areas of Bangladesh. IDP reaches its target group with a coordinated version of all BRAC interventions including health, education, microfinance, and overall social development. IDP grants the poor living in hard-to-reach areas with access to basic services, creates livelihood opportunities, mobilizes communities for their empowerment, and continually improves its services from research findings.

#### ■ GENDER JUSTICE AND DIVERSITY

Gender Justice & Diversity program works simultaneously within the organization and with the community to eliminate gender injustice. This program strives for equality, diversity and inclusiveness within BRAC; improves gender relations and empowers women at the household level across many of its programs and works to ensure that girls and boys are equitably nurtured to their full potential from pre primary through secondary school. The programs also promotes gender equality and tackles violence against women at a national level by influencing government policies and agendas, organizing public forums and events and leveraging national and international alliances for gender justice.

#### Highlights of 2013:

- **MEJNIN** (Meyeder Jonno Nirapad Nagorikotto) – engaged 90,000 students, teachers, parents and community watch group members to build awareness and confidence of students and community members to protect and protest against sexual harassment at public places.
- **Gender, Quality Action Learning (GQAL)** – to enhance a positive life) project, reaching 390,000 households, covering around two million people in eight districts in Bangladesh; more than 47,000 barefoot equality promoters and 23,100 SAMPRITI (a forum for Strengthening Awareness, Mobility, Participation, Rights and Transforming Ideology) members contributed as agents of social change.

#### ■ WATER, SANITATION AND HYGIENE

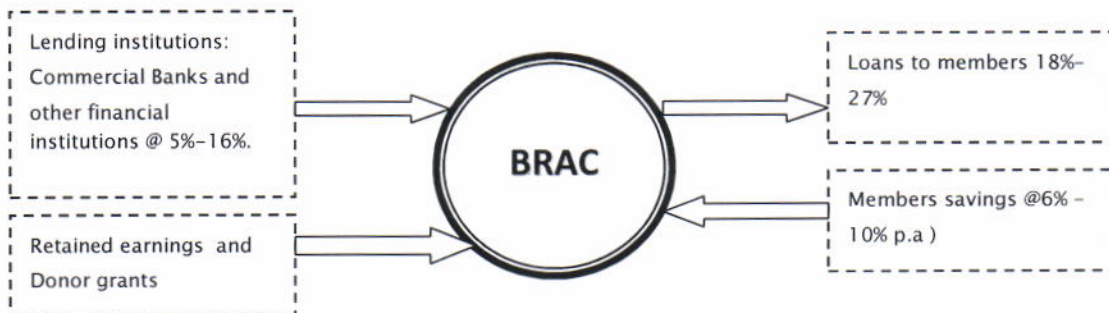
BRAC Water, Sanitation and Hygiene (WASH) program is aimed to reduce the proportion of people without access to safe drinking water and basic sanitation by half. This program has reached over 38 million people providing sustainable and integrated WASH services in rural and isolated areas, breaking the cycle of contamination caused by unsanitary latrines, contaminated water and unsafe hygiene practices. BRAC ensures sustainability of these interventions by encouraging community ownership, developing linkages with local governments and encouraging local entrepreneurs to supply low cost hardware.

#### Highlights of 2013:

Till September 2013, total 63.6 million people are covered under this project. 7,717 teachers were trained on WASH issues and teaching methodology. Total 5,015 deep tube wells, 1 three-headed and 9 two-headed tube wells, 5 piped water supply systems, 19 pond sand filters, and 647 arsenic removal filters were set up. In the same period, 20, 95,224 unhygienic were latrines converted to sanitary latrines.

## ■ MICRO FINANCE (MF)<sup>1</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, and loans from commercial banks. BRAC takes loan from other financial institution at 5%-16% interest rate.



Graph: Fund Flow

BRAC micro finance loans are serviced by Village Organization (VO). Usually there are 30-40 members in each VO. Once a VO has a minimum of 20 members, activities may start. The VO serves as an informal guarantor through creating peer pressure to ensure timely payment. During each VO meetings borrowers repay their weekly or monthly installment and deposit savings. The Microfinance Program covers all 64 districts of Bangladesh with its 281,336 Village Organizations. There are 5.64 million members in 2013. BRAC microfinance program has 3 loan products details given in (Annexure 1). At the end of FY2013 BRAC's loan portfolio grew by 19.16% to BDT 71,447.88 million compared to FY2012.

Table 7:

Summary of Micro Finance Program	2013	2012	2011
No of members	5,640,684	5,835,861	6,770,338
Number of Groups	281,782	279,175	284,347
Number of Borrowers	4,239,936	4,193,218	4,959,133
Number of Districts covered	64	64	64
Number of Branches	2,028	2,119	2,350
Loan Disbursement ( Mill BDT)	121,148.90	104,221.99	86,267.53
Loan Outstanding ( Mill BDT)	71,447.88	59,960.14	52,837.58
Deposit Outstanding ( Mill BDT)	29,034.85	24,907.28	22,364.37

**Savings:** BRAC has 04 types of savings namely (a) Own savings (b) Compulsory savings (c) Monthly savings (d) Term deposits. Average rate of interest paid in respect of savings deposits by members was 6%-10% per annum. A member can withdraw his/her entire amount of savings after fully repaid of loan outstanding balance including service charge on loan after giving a 07 days written notice. BRAC can adjust the amount of bad loan balance with the savings balance of the default borrower. In 2013 BRAC members saving grew 16.57% to BDT 29,034.85 million than 2012. (Annexure1)

### Loan Portfolio Analysis

BRAC provides loans to its members to initiate different income generating activities. Loans to members have to bear annual service charge (18%-27% declining balance method). Repayments of loans are made in weekly or monthly installment. BRAC micro finance program has three segments; one is named as "Dabi" (combining Dabi and Unnoti) second Progoti and newly introduced loan named "Borga chashi". BRAC micro finance program shared 75.72% of total BRAC net surplus. BRAC's outstanding amount of loan registered a growth of 24.92% to BDT 71,447.88 million. The

<sup>1</sup> BRAC's financial statement prepared in compliance with the requirement of Micro Finance Regulatory Authority Act (MRA), 2006:



Organization's micro finance loan was mainly concentrated in Dabi (49.85%) followed by Progoti loan (45.74%), and Borga chashi loan (4.41%). Average loan size was 21,613 taka in 2013.

TABLE 8:

Sector wise loan	FY2013	% in Total loan outstanding	Growth (%)	FY2012	% in Total loan outstanding	Growth (%)
Amount in BDT Mill						
Dabi	35,833.48	49.85	18.86	30,148.53	50.19	7.50
Progoti	32,883.99	45.74	17.53	27,978.42	46.58	18.43
Borga chashi	3,172.10	4.41	63.47	1,940.53	3.23	66.16
<sup>2</sup> Total	71,889.57	100.00	19.68	60,067.48	100.00	13.68

# 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

Table 9:

Particulars	Dec 2013	Dec 2012	June 2012	June 2011
Loan Portfolio (BDT Mill)	71,447.88	59,960.14	57,241.19	45,880.73
Portfolio Growth (%)	24.82	13.92	24.76	2.22
Portfolio at Risk (BDT Mill)	5,523.38	4,616.22	4,346.95	4,986.53
PaR Growth (%)	19.65	-10.78	-12.83	-21.95

**Portfolio at Risk (PaR):** BRAC is 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. Loan portfolio of BRAC stood at BDT 71,447.88 million whereas PaR [ $\geq 30$  Days] stood at BDT 4,373.44 million, which was 6.12% of total portfolio and 80% of total PaR.

Table 10:

Loan Outstanding on 31 Dec 2013							
Loan Classification	Days in Arrear	Rate of Provision	No of loans	Principal Outstanding	Proportion of Loan	Required Provision as per MRA	Provision kept by BRAC
Amount in BDT mill							
Standard	Current	1%	3,183,245	65,924.50	92.27	659.24	1,318.49
Watch list	1-30 days	5%	74,168	1,149.94	1.61	57.50	57.50
Substandard	31-180 Days	25%	52,382	1,117.97	1.56	279.49	279.49
Doubtful	181-350 Days	75%	3,137	138.32	0.19	103.74	103.74
Loss	Over 350 Days	100%	1,215,718	3,117.15	4.36	3,117.15	3,117.15
<b>Total</b>			<b>4,528,650</b>	<b>71,447.88</b>	<b>100.00</b>	<b>4,217.12</b>	<b>4,876.37</b>
<b>Provision Surplus</b>							<b>659.24</b>

<sup>2</sup> Total loan outstanding includes service charge.

Of the total PaR loans, 4.36% loans belonged to loss category followed by watch list (1.61% of total PaR) and sub-standard (1.56% of total PaR). BRAC has surplus portfolio risk coverage with loan loss provision fund of BDT 659.24 million. At the end of FY2013 loan loss provision reserve was 6.78% of outstanding loan (FY2012: 6.29%). In FY2013 risk coverage ratio was 111.50% (FY2012: 106.99%). The Organization is has already expanded its borrowing limits in order to increase its micro finance growth. Through rapid increases of leverage BRAC may face pressure on its margin.

Table 11:

	Year Ended Dec 31			
	2013	2012	2011	2010
Capital/Asset Ratio (%)	29.37	29.07	26.84	27.55
Debt to Equity Ratio (X)	0.94	1.08	1.07	1.12
Deposits to Loans (%)	40.39	41.54	42.49	45.75
Deposits to Assets (%)	36.94	39.62	40.65	41.58
Loan Portfolio to Assets (%)	91.45	95.38	95.66	90.88

#### Capitalization & Funding Strategy

BRAC microfinance program was mainly funded by Members savings. Of the total funding 41.38% was from members savings followed by capital fund 32.90% and bank loan 21.66% and 4.06% from bank overdraft. During FY2013 capital fund grew by 26.32% backed by internal capital generation mainly. Of the total loan taken from commercial bank & others, 71.00% was borrowed from commercial bank only (details given in Annexure), 29.00% was from Bangladesh Bank, FMO Netherlands and Norfund Norwegian. BRAC has four types of savings plan (details given in Annexure), through which BRAC has collected BDT 29,034.85 million. Balance sheet liabilities to capital fund of this program was 2.41 times (FY2012: 2.44 times) and borrowed fund to capital fund was 0.78 times (FY2012: 0.91 times).

Table 12:

(Mil. BDT)	Year Ended Dec 31				
	FY-13			FY-12	
	Amount	Total (%)	Growth (%)	Amount	Total (%)
Capital Fund	23,085.39	32.90	26.32	18,275.84	23.38
Donor fund	1,999.94	2.85	-	2,000.02	2.56
Retained surplus	21,085.45	30.05	29.55	16,275.82	20.82
Loan from commercial Banks & others	15,202.00	21.66	21.22	12,540.75	16.04
Members' Savings	29,034.85	41.38	16.57	24,907.28	31.86
Bank over draft	2,847.36	4.06	(31.87)	4,179.18	5.35
Total	70,169.60	100.00	(10.24)	78,178.89	100.00

#### Financial Performance

In FY2013, of the total income 96.79% was interest income from loan. In FY2013, fund based income increased by 15.63% and net interest income increased by 21.72% respectively due to increased loan portfolio. Net surplus increased by 37.22% due to loan portfolio growth in FY2013. The provision expenses ratio increased by 0.86 percentage point in FY2013 from FY2012.



Table 13:

Segregation of Revenue			
For the year Ended Dec 30			
Year	FY-13		FY-12
(BDT in Mil)	Amount	Growth	Amount
<b>Fund Based Income (a)</b>	<b>17,569.80</b>	<b>15.63</b>	<b>15,194.86</b>
<i>Interest income on loan</i>	<i>17,059.28</i>	<i>15.63</i>	<i>14,752.74</i>
<i>Interest income on bank deposit</i>	<i>510.52</i>	<i>15.47</i>	<i>442.12</i>
<b>Interest &amp; Finance Charges (b)</b>	<b>4,186.55</b>	<b>31.53</b>	<b>3,182.94</b>
<i>On Borrowings</i>	<i>2,121.86</i>	<i>33.33</i>	<i>1,591.47</i>
<i>On Deposits</i>	<i>2,064.69</i>	<i>29.74</i>	<i>1,591.47</i>
<b>Net Interest Income (a-b)</b>	<b>13,383.25</b>	<b>11.42</b>	<b>12,011.92</b>
Fee Based Income	55.16	122.37	24.81
<b>Total Income (a + c)=d</b>	<b>17,624.96</b>	<b>15.80</b>	<b>15,219.67</b>
<b>Expenses</b>	-		
<i>Personnel Expenses</i>	<i>4,981.97</i>	<i>6.14</i>	<i>4,693.83</i>
<i>Administrative &amp; Other Expenses</i>	<i>5,510.37</i>	<i>3.75</i>	<i>5,311.14</i>
<b>Total expenditure</b>	<b>12,815.33</b>	<b>9.40</b>	<b>11,714.56</b>
Provision For Loan Loss	2,322.99	35.88	1,709.59
<b>Net Surplus</b>	<b>4,809.63</b>	<b>37.22</b>	<b>3,505.11</b>

#### Financial Indicators

At the end of FY2013, portfolio yield increased by 0.24 percentage points to 26.44% due to increase loan portfolio ( By 24.92%) thus ROA increased by 0.85 percentage point due to increased net surplus (by 37.22%). In FY2013, operating expense ratio that indicates efficiency of the organization, decreased by 0.54 percentage points due to moderate operating expenses. At the end of FY2013, capital adequacy stood 30.21% that was 30.23% in FY2012.

Table 14:

Key Financial Indicators		
Year ended Dec 31		
	FY-2013	FY-2012
<b>Profitability &amp; Efficiency</b>		
<sup>3</sup> Portfolio Yield (%)	26.44	26.20
Return on Assets (ROA) (%)	6.80	5.95
<sup>4</sup> Operating Expense Ratio (%)	9.77	10.31
<b>Fund Cost</b>		
Avg. cost of deposit & borrowing (%)	8.90	10.15
<b>Capitalization</b>		
Borrowed Fund to Equity (Times)	0.78	0.91
<sup>5</sup> Capital Adequacy Ratio (%)	30.21	30.23
<b>Liquidity</b>		
Liquid assets to Deposit & Borrowing (%)	4.93	5.72

<sup>3</sup> Portfolio Yield = Interest income / Avg. Gross Outstanding Portfolio.

<sup>4</sup> Operating Expense Ratio = Operating Expense / Avg. Gross Outstanding Portfolio

<sup>5</sup> Capital Adequacy Ratio = Total Equity / (Total Assets - Cash and Bank Balance).

## ■ BRAC ENTERPRISES

BRAC Enterprise comprises of 18 developments –focused enterprises across health, agriculture, livestock, fisheries, education, green energy and retail sectors. These BRAC enterprises are creating livelihood , alleviating poverty and improving the well being of the community members like BRAC's other development interventions do. BRAC Enterprises are mostly incepted as a support mechanism that allows the development programs to be sustainable, the surplus-generating model of the BRAC Enterprises allow for 50% of the surplus from the enterprises to support BRAC's expenditures, including Development Programs that are often run at very high costs, and the remaining 50% to be re-invested in the enterprises themselves, and as a result reduce the need for external funding.

"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 2013, revenue from "Aarong" stood at BDT 4,748.62 million, registering a 3-year CAGR of 4.59%

Table 15: Aarong

Particulars	Amount in BDT mill			
	2013	2012	2011	2010
Total Revenue	4,748.62	4,529.85	4,150.03	3,397.34
Growth (%)	4.83	9.15	22.16	25.74
Net surplus for the year	774.29	676.23	693.43	703.90
Growth (%)	14.50	-2.48	-1.49	38.39
Cost service provided as % of Revenue	83.78	85.69	82.97	79.57

Cost of service decreased slightly from previous year. Hence, its net surplus in Dec 2013 stood at BDT 774.29 million registering 14.50% growths.

Table 16: Aarong

Particulars	Amount in BDT mill		
	2013	2012	2011
Total Asset	3,343.87	2,994.22	2,573.58
Growth	11.68%	16.34%	18.12%
Total Liabilities	503.08	540.57	458.06
Net Assets -- Capital fund	2,840.79	2,453.65	2,115.53
Growth	15.78%	15.98%	19.60%
ROAA	24.43	24.29	29.62%
Liability to net surplus (x)	64.97	79.94	66.06%
Liability to Asset	15.04	18.05	17.80%
efficiency ratio	84.25	85.69	82.97%
EBITDA / Sales	20.66%	14.93	16.71%

In line with the growth of revenue and net surplus its asset base stood at BDT 3,343.87 million registering a growth of 11.68% from previous year. The enterprise is commercially viable) which is reflected in its ROAA. Total capital fund increased to BDT 2,840.79 million which was allocated to other BRAC programs. In Dec 2013, 14.18% of total BRAC net surplus received from Aarong. In 2013 Aarong opened its 12<sup>th</sup> outlet and received the highest VAT payer award from the Bangladesh Govt.

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 has 101 collection and chilling stations located in 25 districts, including 10 located in ultra-poor areas. Today, BRAC Dairy holds 24 percent of the national market share.





The enterprise collects 102,559 litres milk daily from 50,000 farmers, 64% being women. BRAC Dairy has 23 Distributors and 37 Sales centres nationwide, covering 16,000 outlets out of 23,000 with a dedicated consumer base of around 500,000. Its revenue stood at BDT 2,713.05 million in 2013. BRAC Dairy is currently the only dairy company in Bangladesh to have received ISO 22000 Certification, for quality control at every stage of production, processing, and distribution contributing to dairy products' safety record. There was growth in revenue and cost control mechanism (Cost of Service as % of Revenue increased to 93.59% in 2013, the net surplus stood at BDT 185.86 million. In Dec 2013, 2.83% of total BRAC net surplus was received from BRAC Dairy.

Table 17: BRAC DAIRY

Particulars	Amount in BDT mill			
	2013	2012	2011	2010
Revenue	2,713.05	2,469.76	2,385.27	1,891.08
Growth (%)	9.85	3.54	26.13	29.50
Net surplus for the year	185.86	194.81	231.38	163.30
Growth (%)	(4.59)	(15.80)	41.69	31.75
Cost service as % of Revenue	93.59	92.54	90.91	91.49

The ratios indicate profitability decreased than last year which attributed to the low revenue growth, net surplus, and cost control. As of December 2013, capital fund stood at BDT 932.82 million.

There are 06 BRAC Poultry farms. 02 BRAC Feed Mills and 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, and 16 horticulture nurseries. Also there are 4 tea gardens under BRAC Tea Estates in the Chittagong districts.

Table 18: BRAC DAIRY

Particulars	Amount in BDT mill				
	2013	2012	2011	2010	2009
Total Asset	1,059.61	988.20	859.38	734.94	581.99
Growth (%)	7.23	14.99	16.93	26.50	0.32
Total Liabilities	126.80	148.31	116.90	108.99	88.49
Growth (%)	(14.51)	26.87	7.25	23.17	-40.45
Net Asset - Capital Fund	932.82	839.89	742.48	625.94	492.51
Growth (%)	11.06	13.12	18.62	27.09	14.40
ROA (%)	18.15	19.71	29.03	24.82	21.37
Liability/Net Surplus(x)	0.68	0.76	0.51	0.67	0.71
Liability to Asset (%)	11.97	15.01	13.60	14.83	15.23

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 to over 100 workers.

In Dec 2013, 6.26% and 4.04% of total net surplus came from BRAC self financed social development projects and Agro based program support enterprise. BRAC chicken launched in 2012 became a key local supplier of KFC in Bangladesh. BRAC Chicken sells high quality chicken, achieving HACCP ("Hazard Analysis and Critical Control Point"; a systematic approach to ensuring food safety) certification.

Table 19: BRAC Printing &amp; Packaging

Particulars	Amount in BDT mill				
	2013	2012	2011	2010	2009
Revenue	603.56	861.74	807.38	838.15	787.14
Revenue Growth (%)	-29.96	6.73	-3.67	6.48	-8.76
Net surplus	-35.48	7.13	38.64	72.06	48.43
Net surplus Growth (%)	N.a	-81.55	-46.38	48.79	4.34
Cost of service as % of Revenue	101.77	99.14	95.05	91.41	93.86

BRAC's profitability level decreased and long term liabilities of BRAC Printing & Packaging increased in 2013. The capital fund of this venture increased slightly to BDT 216.24 million in 2013. In Dec 2013, -0.005% of total BRAC net surplus received from BRAC Printing and Packaging which is very trivial.

Table 20: BRAC Printing &amp; Packaging

Particulars	Amount in BDT mill				
	2013	2012	2011	2010	2009
Total Assets	276.42	288.51	274.85	279.98	242.32
Growth (%)	-4.19	4.97	-1.83	15.54	10.70
Total Liabilities	59.78	72.27	60.61	70.41	51.54
Net Assets - Capital Fund	216.64	216.24	214.24	209.57	190.78
Growth (%)	0.19	0.93	2.23	9.85	7.57
ROAA	0.13	2.53	13.93	27.59	21.00
Liability / Net surplus (X)	-1.68	10.14	1.57	0.98	1.06
Liability to Asset	21.63	25.05	22.05	25.15	21.27

**BRAC INVESTMENTS:** The BRAC Investments unit comprises of financially profitable investments and financial service businesses that are geared toward generating financial returns while adhering to underlying socially causes such as low-income housing, microfinance, small enterprise loans, information technology, clean development mechanism (CDM) etc. Dividends from BRAC Investments support the financial sustenance of both BRAC Enterprises and Development Programmes by acting as a hedge or safety net against future liquidity crisis. The synergetic effect of this integrated model has contributed significantly in reducing BRAC's dependency on donors and external funding. Currently 26% of BRAC's overall financial needs are fulfilled by various donation/external sources while the remaining 74% is financed internally by BRAC from the surplus of its enterprises and the dividend from its investments.

Table 21: BRAC Investments in Related Undertakings

Related Undertakings (%)	2012	2013	Principal activities
BRAC Bank Ltd.	43.77	44.63	Banking Business
BRAC Industries Ltd.	99.90	99.90	Cold Storage
BRAC BD Mail Network Ltd.	20.00	20.00	Internet service provider
BRAC Services Ltd.	100.00	100.00	Hospitality
Delta BRAC Housing Finance Corp. Ltd.	18.39	18.39	Housing finance
Documenta TM Ltd.	80.00	48.7	Software development
BRAC Karnophull Tea Company Ltd.	99.90	99.90	Tea Plantation
BRAC Kaiyachara Tea Estate	99.90	99.90	Tea Plantation





BRAC Banshkhali Tea Company Ltd.	99.90	99.90	Tea Plantation
BRAC Kodala Tea Company Ltd.	99.10	99.10	Tea Plantation
Bangladesh Netting Factory	94.00	94.00	Poultry processing
BRAC Asset Management Company Ltd.	26.00	26.00	Management of Assets & Portfolio investment
BRAC impact venture Ltd.	51.00	51.00	Sustainable conscious, green and ethical investment
BRAC Environmental Enterprise Ltd.	90.00	90.00	Waste management service.

#### ■ BRAC INTERNATIONAL

BRAC has spread its development works to different countries of the world including Philippines, Haiti Pakistan, Afghanistan, Liberia, Sierra Leone, South Sudan, Sri Lanka, Tanzania and Uganda. Besides BRAC has independent charity in USA and UK. BRAC has initiated its micro finance program in Myanmar from 2013.

#### ■ OTHER DIVISIONS

**BRAC LEARNING DIVISION (BLD):** BRAC invests for developing the capacity of its staff and volunteers. This division provides regular, program-related training and offers continuous skills development opportunities through 19 residential BLD centers spread across the country which have the capacity of accommodating 3,000 participants per day. Nearly 98 faculty members are working relentlessly in the department to provide need based and tailor-made training support and consultancy services to BRAC employees across the world. In 2012, it trained a total of 757,504 participants and accommodated 131,153 participants in its learning centers for training, meetings and workshops. Among these participants, 3,889 were from external agencies, having participated in around 24 training courses.

**INFORMATION AND COMMUNICATION TECHNOLOGY:** Information and Communication Technology (ICT) department is making technological interventions to automate the organization's internal business process but is increasingly establishing itself as a centre of excellence for innovative solutions to complement its effort in the local and global development arena. The department comprises of four units- software development, network, and hardware support and mid-range coverage desk. In 2013, ICT improved internal automation which reduces paper work, introduced mobile based data collection tool, and introduced a new MIS system for generating reports. At present six BRAC offices and 13 learning centers have online connections with the head office.

**ADMINISTRATION AND RISK MANAGEMENT:** BRAC administration and risk management department (ARM) has an administration unit which primarily works to obtain approval from the director general of the NGO affairs bureau for foreign donated projects. ARM undertakes internal audits including risk based audit and compliance, through its internal audit unit in order to maintain transparency and accountability of the organization based on international standard.

**HUMAN RESOURCE DIVISION:** Human Resource Division (HRD) works to ensure procedural justice, intensify transparency and equity, and promote innovation and quality. BRAC believes that the ability of the staff to perform well depends on qualities, skills and competencies. BRAC launched e-recruitment, an online system that enables candidates to apply electronically. The system notifies candidates via SMS for interviews. In addition, it has introduced web-based information services for BRAC's employees on the division's website ([www.brachrd.org](http://www.brachrd.org)), including staff training and new vacancies. As of 31<sup>st</sup> December 2013, BRAC had 120,383 employees.

**FINANCE AND ACCOUNTS:** BRAC's finance and accounts department is responsible for financial planning and record-keeping, managing costs, assets and liabilities, financing investments, analyzing cash-flow and profitability, and preparing budgets and financial frameworks for the development programs. The department is accountable for donor grants, property, provident funds, employee gratuity, salary, tax and loans. It produces annual and monthly





consolidated financial statements and fulfils the rules and regulations of the NGO Affairs Bureau, Microcredit Regulatory Authority (MRA) and other regulatory bodies. Through this department BRAC ensure effective financial control and transparency of the financial data of its projects and enterprises, garnering the trust and confidence from all those with whom the organization work. In 2013, the department's annual financial statements are prepared in accordance with international reporting standards, for which it received an award from the Institute of Chartered Accountants of Bangladesh (ICAB)

## ■ GOVERNANCE

**GOVERNING BODY:** The Governing Body comprises 10 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 2013, four meetings of the Governing Body and Annual General Meeting of the General Body were held.

**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. Ahmed Ataul Hakeem FCMA, Ex- Comptroller & Auditor General, has been appointed as the Fourth Ombudsperson for BRAC for the period from 01 December 2013 to November 30, 2016.

**FINANCE & AUDIT COMMITTEE:** BRAC's governing body constitutes of the Finance and Audit Committee with the following members:

1. Dr A Mushtaque Raza Chowdhury, Vice Chair person, BRAC Governing Body.
2. Tahrunnesa Abdullah, Member, BRAC Governing Body Member.
3. Parveen Mahmud, FCA (Independent).
4. Dr Mahabub Hossain, Advisor to the Executive Director, BRAC.

Mr. S N Kairy, Group CFO, acts as the Secretary of the committee. Each member is free of any relationship that would interfere with the exercise of his or her independent judgment as a member of the committee. Members of the committee have professional experience and expertise in different sectors.

### • Role and Purpose of this committee

The primary function of the Finance and Audit Committee ("the committee") is to assist the governing body in fulfilling its oversight responsibilities for: 1) The financial reporting and budgeting processes. 2) The systems of internal controls and risk assessments. 3) Compliance with legal and regulatory requirements. 4) Qualifications, independence, and performance of the external auditors, and 5) Qualifications, independence, and performance of the internal audit unit. The committee meets at least twice times annually, or more frequently as deemed necessary by any committee member. A total of three meetings were held during 2013.

## Investment Committee

The Investment committee oversees the BRAC investments, and consists of the following members: 1. Sir Fazle Hasan Abed, Chairperson, BRAC Governing Body, Chairperson, 2. Dr. Mushtaque Raza Chowdhury, Vice Chair person, BRAC Governing Body. 3. Latifur Rahman, Member, BRAC Governing Body. 4. Rokia A Rahman, Member, BRAC Governing Body Member 5. Luva Nahid Choudhury, Member, BRAC Governing Body Member. 6. Muhammad A (Rumee) Ali, Advisor to the Executive Director, BRAC. Enterprises & Investments, BRAC Member Mr. S N Kairy, Group CFO acts as the Secretary of the committee. In 2012, the investment committee held two meeting.

## ■ DEVELOPMENT PARTNERS

BRAC'S strategic partners are Australian Aid, UK aid. Major institutional Donors are Kingdom of Netherlands, The Global Fund, UNICEF, CIDA, BILL & MELINDA GATES Foundation, BRAC USA. As Knowledge partners BRAC has 13 organizations includes TIB, SEED, IFTDO, IFPRI, and Save the Children. Also BRAC has affiliation with different Ministries of Govt. of Bangladesh.





## ■ INNOVATIONS MANAGEMENT

BRAC social innovation lab came into existence in 2011 to institutionalize innovation at BRAC and create an accessible space where ideas can be shared, generated and nurtured. It supports programs in identifying existing innovations, running pilot programs and facilitating dissemination of experience, as well as seeking new partners with promising solution to work with BRAC in tackling complex issues. Through its activities, the social innovations, fosters an exchange of dialogue among cross programs and supports the initiative of new ideas on how to advance BRAC's mission.

### Membership of INGO Accountability Charter

BRAC became a full charter member of the INGO Accountability Charter in December 2013. The objective of this INGO Accountability Charter is to create and develop charter relating to the accountability of Non- Govt. Organizations. At present there are 26 full charter members.

# ANNEXURE 1:

Table 1.1:

Segment	Dabi	Progoti	Borga chashi
Loan term	12 Months	12-18 Months	12 Months
Loan size	12-85 thousand	80 thousand to 6 lakh and above	15 thousand to 120,000 lakh
Interest rate	27%	27%	18%
Repayment policy	Weekly/Monthly	Monthly	Monthly
Loan processing fee	N/A	N/A	N/A
Any other fee	N/A	N/A	N/A
Penalty if any	N/A	N/A	N/A

Table 1.2:

Savings	Frequency	Amount Saved	Interest Rate
Amount in BDT Mill			
Compulsory Savings	Monthly	20,813.68	6%
Voluntary Savings	Monthly	3,444.00	8.25%
Term deposit	6 Month to 7.5 years	4,777.17	10.41%
Total savings		29,034.85	

Table 1.3: Grant Composition of BRAC

Name of Donor	FY2013	
	USD million	%
DFID	100.85	48.77
DFAT(Aus Aid)	43.59	21.09
The Global Fund	20.45	9.89
NOVIB/EKN	13.23	6.40
BRAC USA	5.31	2.57
CIDA	4.29	2.07
UNICEF	4.04	1.95
Family Health International 360	3.87	1.87
Others	11.14	5.39
Total	206.77	100.00





## ANNEXURE 2:

Term Loans taken from following Concerns( Micro Finance)	DEC 2013	DEC 2012
	BDT	BDT
Bangladesh Bank	406,63,84,000	2,781,252,000
Bangladesh Commerce Bank (BCB) Ltd.	-	77,670,320
Bank Asia Ltd.	839,057,470	351,539,520
BASIC Bank Ltd.	659,220,071	376,730,251
Dutch Bangla Bank Ltd.	219,422,051	343,708,515
Eastern Bank Ltd.	862,621,968	464,913,739
Export Import Bank of Bangladesh (EXIM) Ltd.	-	167,171,512
FMO, Netherlands	244,535,716	489,071,430
HSBC Bank Ltd.	-	500,000,000
Jamuna Bank Ltd.	341,075,464	77,052,103
Norfund, Norwegian	978,14,284	195,628,570
Rajshahi Krishi Unnayan Bank (RAKUB)	510,000,000	345,000,000
Rupali Bank Ltd.	-	450,000,000
Shahjalal Islami Bank Ltd.	-	131,555,140
Southeast Bank Ltd.	275,112,215	429,977,100
Standard Chartered Bank (SCB)	4,009,628,571	4,675,257,142
The City Bank Ltd.	671,899,124	517,931,390
Uttara Bank Ltd.	-	83,333,334
UCBL	249,831,034	449,954,080
Bank Al Falah	62,500,000	-
BRAC Bank	580,000,000	-
Dhaka Bank	-	500,000,000
Commercial Bank of Ceylon	165,000,000	-
IFIC Bank Ltd.	510,526,083	-
Prime Bank Ltd.	837,372,258	-
<b>Total</b>	<b>15,202,000,309</b>	<b>12,540,746,146</b>

**ANNEXURE 3:**

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**BRAC Governing Body**

- 1 Sir Fazle Hasan Abed, Founder and Chairperson, BRAC
- 2 Mushtaque Chowdhury, Vice Chairperson
- 3 Taherunnessa Abdullah, Social scientist and Gender specialist
- 4 Martha Alter Chen, Lecturer in Public Policy at the Harvard Kennedy School and International Coordinator of WIEGO
- 5 Faruq A. Choudhury, Chairman, Delta-BRAC Housing Finance Corp., Bangladesh
- 6 Luva Nahid Choudhury, Director General, Bengal Foundation, Bangladesh
- 7 Kazi Aminul Huque, Chartered Accountant
- 8 Syed Humayun Kabir, Chairman, Renata Ltd. Bangladesh
- 9 Latifur Rahman, Industrialist
- 10 Rokia A. Rahman, Industrialist





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

RATING	DEFINITION
AAA 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> , AA <sub>3</sub> * 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> 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> , BBB <sub>3</sub> 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 MFIs 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> 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> 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> , CCC <sub>3</sub> 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 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 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.

- 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

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

RATING	DEFINITION
ST-1 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 characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-2 High Grade	MFIs rated in this category are considered to have strong capacity for timely repayment. MFIs rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-3 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 characterized with satisfactory level of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-4 Below Average Grade	MFIs rated in this category are considered to have below average capacity for timely repayment of obligations. Such capacity is highly susceptible to adverse changes in business, economic, or financial conditions than for obligations in higher categories. MFIs rated in this category are characterized with average liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-5 Inadequate Grade	MFIs rated in this category are considered to have inadequate capacity for timely repayment of obligations susceptible to adverse changes in business, economic, or financial conditions. MFIs rated in this category are characterized with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.
ST-6 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 characterized with risky position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.

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