

# CREDIT RATING REPORT

CRAB RATING PORTRAYAL

AAA

AA2

BBB1

A3

BB2

CCC1



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

18 September 2011 AAA ST-1

Date of Rating : 23 October 2012

Validity : 30 June 2013

Rating Based on: Audited financial statements up to 31 December 2011 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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#### BRAC (Micro Finance)

	Dec 2011	Dec 2010
No. of Active Members	6.77 Mill	8.05 Mill
No. of Active Borrowers	4.95 Mill	5.45 Mill
No of Village Organization	284,347	303,616

BRAC (Micro Finance)	June 2012	June 2011
Amount in BDT Mill		
Loan Portfolio	57,241.19	45,880.73
Members Savings	23,113.93	20,226.92
Total Asset	62,995.62	50,983.09
Net Surplus	2,456.50	1,384.69
Portfolio Yield (%)	26.19	25.65
PaR 30 days (%)	5.77	7.97
Capital Adequacy (%)	26.58	28.76
ROAA (%)	4.31	2.77
Operational Self Sufficiency (%)	121.14	112.68

#### ■ 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 liquidity, internal fund generation, and access to alternative sources of funds.



BRAC's governance aspects, managerial factors and financial performance have the enduring support to build its present image to the underprivileged at home and abroad. BRAC's integrated health, finance and education programs are active in 70,000 villages in all of the 64 districts of Bangladesh, reaching an estimated three quarter of the entire population. BRAC's agricultural program work combined with government to ensure food security. In Dec 2011 this project marked a great year as innovation of short maturing and quality rice varieties, stress tolerant rice to combat adverse effect of climate change included submergence salinity and draught.

BRAC's education programs reached more than 4.95 million children in Bangladesh. Number of primary students in Dec 2011 was 0.75 million.

BRAC Education	Dec 2011	March 2011	June 2010
Primary school currently running	24,398	24,398	38,250
Primary School Graduates (In Mill)	4.95	4.66	4.38
BEP teachers	37,567	37,875	35,497

BRAC Health care project covered 92 million people of Bangladesh. These achievements are made possible by the work and dedication of 91,000 community health volunteers (up to Dec 2011). Under Tuberculosis program 0.46 million patients treated up to Dec 2011. Under IMNC project up to Dec 2011, around 16.14 million (cumulative) pregnant women received 4 ante natal cares. Under Manoshi project 4.51 million women received 4 or more ante natal cares. Under BRAC WASH program it has provided hygiene education to 38.8 million people and sanitary latrines to 25.6 million people through mobilization, loans and subsidies.

BRAC Health Care	Dec 2011	June 2011
No. of BRAC Health Centers	31	31
Malaria Total Case Tested	313,513	194,884
Pregnant Women Received ANC (In million)	5.7	5.66
Tuberculosis Population Covered (In million)	94.3	94.3
Community Health Volunteers	91,000	80,000

BRAC TUP programme has reached ultra poor households in 34 of 64 districts in Bangladesh. So far the program has invested in 1.30 million households: 400,000 with full grants and 600,000 with grant plus credit. BRAC's community empowerment project's number of "Polli Shomaj" reached to 11,234 in Dec 2011. Number of Human Rights and Legal Services (HRLS) graduates is 3.70 million.

Targeting the Ultra Poor	2011	2010
Members received enterprise development training	60,800	76,000
Members received income generating assets	43,800	54,500



BRAC Water, Sanitation and Hygiene (WASH) programme is aimed to reduce the proportion of people without access to safe drinking water and basic sanitation by half. It has provided 16,430 clients with sanitation support, converted 84,617 unhygienic latrines to sanitary latrines in 2011.

Number of member of micro finance operation decreased to 6.77 million up to Dec 2011. Total loan outstanding under micro finance program up to June 2012 was BDT 57,241.19 million whereas PaR [ $\geq 30$  Days] stood at BDT 3,303.58 million, which was 5.77% of total portfolio. PaR [ $\geq 30$  days] growth was -12.83 in June 2012. The loan portfolio secured 24.76% growth in June 2012 which was 2.22% compared to portfolio growth of June 2011. In 2012 BRAC has successfully transitioned from weekly to monthly loan repayment system for its DAB client in areas with better socio economic conditions.

BRAC has social enterprise like Aarong, in 2011, revenue from "Aarong" stood at BDT 4,150.03 million, registering a 3-year CAGR of 20.05%. Cost of service increased slightly from previous year. Hence, its net surplus in 2011 stood at BDT 693.43 million registering a 3 year CAGR of 15.38%. In 2011 Aarong has opened its first flagship outlet in Uttara, Dhaka. Total capital fund increased to BDT 2,115.53 million which was allocated to other BRAC programs. BARC Dairy and Food project's net surplus stood at BDT 231.38 million. In Dec 2011, 6.97% of total BRAC net surplus received from BRAC Dairy. The ratios indicate increased profitability attributed to the high revenue growth, net surplus, low leverage and cost control. As of December 2011, capital fund of BRAC Dairy and Food projects stood at BDT 742.48 million which was only BDT 169.55 million in 2006. The BRAC Printing Pack produces around 1,500 metric tons of finished flexible packaging materials per year and provides employment over 100 workers. In Dec 2011, 15.73% and 7.10% of total net surplus came from BRAC self financed social development projects and Agro based program support enterprise. BRAC enterprises allow 50 percent of the financial surplus used in BRAC development programme.

BRAC has investments and is a shareholder of BRAC Bank Limited and Delta Brac Housing Finance Corporation Limited. Social enterprises have enabled BRAC to be 73 per cent self-sufficient and only 27 per cent reliant on donor funding.

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

#### 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-2011	Dec-2010	Dec-2009
No of Members	6.77 mill	8.05 mill	8.36 mill
No of Village Organization	284,347	303,616	295,507
No of Borrowers	4.95 mill	5.45 mill	6.24 mill
Districted Covered	64	64	64
No of Branches	2,350	2,350	2,350
Disbursement	86,267 BDT mill	73,758 BDT mill	75,680 BDT mill
Loan Outstanding	52,635 BDT mill	43,841 BDT mill	44,031 BDT mill
Savings	22,364 BDT mill	19,966 BDT mill	18,398 BDT mill

Table 2: Eligibility Criteria of PKSIF

Eligibility Criteria	As of 30 June 2012	
	Required	BRAC Actual
Cumulative Loan Collection Ratio (On Total dues)	95%	99.81%
Loan collection Ratio on Current dues ( on running 12 month basis)	92%-100%	98.05%
Minimum Liquidity Ratio	20%	6.17%
Minimum Current Ratio	1.50	2.32
Minimum Capital Adequacy	20%	26.58%
Minimum Debt Service Coverage Ratio	1.25	1.70
Minimum Rate of Return on Capital	2%	16.23%

Table 3: MICRO FINANCE OPERATIONS: KEY FINANCIAL RATIOS OF 30 JUNE 2012

Capital Adequacy Ratio	Portfolio at Risk (>=30 Days)	Financial expense Ratio	Operational Self Sufficiency	Yield on Portfolio
26.58	5.77	6.26	121.14	26.19
Gearing Ratio (x)	Debt to Equity Ratio	Portfolio per credit staff	Total Income to Average Assets	Total Expenses to Average Assets
2.85	1.44	4,273	24.40	20.09
Return on Average Assets	Return on Average Equity	Liquidity Ratio	Capital /Asset Ratio	Deposit to Loan Ratio
4.31	16.23	10.54	25.98	40.45

Risk Coverage ratio	Gross Loan to Total Assets	Operating Expense Ratio	Write Off Ratio	Efficiency Ratio
125.55	90.70	12.19	4.81	16.54

**Notes:**

1. All figures pertain to the organization's microfinance program as on 30 June 2012.
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 30 June 2011.
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 30 June 2012 have been converted into taka at the exchange rates prevailing at that date. 1 USD = 81.80 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, 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 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 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 and covers an estimated 110 million people 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.

It is now considered the largest non-profit in the world – both by 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 1.8 million children. BRAC tries to use funds from its social enterprises to pilot and spread other types of programs throughout Bangladesh. In Dec 2011, 98.71% of total BRAC net surplus received from BRAC program support enterprises (unrestricted fund) and the rest from restricted/donor fund from development projects. 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. In recent years, BRAC has expanded into Pakistan, Afghanistan, Liberia, Sierra Leone, South Sudan, Sri Lanka, Philippine, Haiti Tanzania, and Uganda. BRAC also has existence in UK and USA. BRAC UK and BRAC USA were created to help and mobilize support for BRAC's international work. 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 have been discussed below.





## ■ BRAC Agriculture and Food Security

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 programme 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. This program successfully implemented crop intensification project to restore livelihood of victims of cyclones 'Sidr' and 'Aila'. There are 02 seed processing plants and 10 seed farms.

### Highlights of 2011:

1. In 2011, short maturing and quality rice varieties was innovated which includes salt tolerant rice.
2. During 2011, BRAC disseminated technology and provided credit support to 47,000 farmers through the crop intensification project, 75,000 farmers through the Aila rehabilitation project and 53,000 farmers through the agriculture credit project.

## ■ BRAC Education

The BRAC Education Program (BEP) began in 1985. Around 4.95 million children have graduated from the BRAC primary school in Dec 2011. Number of primary students was 0.75 million in the same year. Currently primary school drop out is approximately 30% in Bangladesh. To reduce this drop out rate in government primary schools BRAC has pre-primary schools from where 0.36 million graduates are directly admitted to government schools. BRAC has implemented mentoring program which influences students to continue their studies and involve in extra curricular activities. BRAC's teacher: student ratio is 1:33 in its pre-primary and primary schools. BRAC has brought primary education to submerged area by introducing 10 boat schools. These boat schools pick up teachers and registered students from the nearest settlement and drop them off in their home after classes.

**Pre-Primary School:** BRAC has 13,054 pre primary schools up to Dec 2011. Number of current student from pre primary schools up to June 2011 was 0.36 million. Around 99% of children who enters the BRAC pre primary school go to mainstream schools.

**Primary and Secondary School:** BRAC initiated to improve education for the under-privileged beginning in 1985 by setting up 22 one room primary schools. BRAC has 24,398 primary schools up to Dec 2011. Girls now account for 60%-65% of all students. BRAC supports 3,389 secondary schools across the country to help Government efforts in improving the quality of secondary education. There are computer aided learning systems in the classes.

Table 4:

BRAC Primary School	Dec 2011	March 2011	June 2010
Currently running	24,398	24,398	38,250
Graduates (In Mill)	4.95	4.66	4.38
BEP teachers	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 8,037 adolescence development centers up to Dec 2011. BRAC introduced additional

1,183 new adolescent clubs which makes total 8,037 clubs with 206,647 members during the year. BRAC also initiated Social and Financial Empowerment of Adolescents (SoFEA). The SoFEA initiative is about empowering adolescent girls through financial and social support. In 2011, over 1,900 girls received training in income generation activities.

#### Highlights of 2011:

1. BRAC operated 24,398 primary schools with 748,175 students.
2. 13,054 pre primary schools with 362,466 students.
3. 109,684 students from BRAC primary schools sat for the primary terminal exam in 2011. Pass rate was 99.86%.
4. 300 teachers received value based training and 1,908 teachers have received training on English, mathematics and science.
5. Cost per child is USD 32.00.
6. Introduced Boat School in submerged area.
7. Opened 120 new learning centers in 2011 (total learning center 2,425).
8. 659 high school students and 456 undergraduate students have received scholarships, while 10,558 students have been trained as student mentors.

#### Future Plan of BRAC Education:

BRAC has planned to open further 10,000 pre-primary schools and 20,655 primary schools in remote locations, urban slums and ethnic areas. BRAC will take initiatives for including e-materials for classroom teaching and learning secondary education system.

#### ■ BRAC Health

Until now BRAC health care has reached in 64 districts and over 110 million people of Bangladesh. These achievements are made possible by the work and dedication of 91,000 community health volunteers up to Dec 2011. BRAC health components include 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 various components which are: 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).

**Tuberculosis Control Program:** Up to 2011, total 464,334 patients were treated in 42 districts. Total 94.3 million people reached under this program up to Dec 2011. TB death in Bangladesh has declined to 43 per 100,000.

**Malaria Control Program:** BRAC operates this program in Moulvibazar and all 4 CHT districts. BRAC "Shasthya Shebikas" uses rapid diagnostic tests identify and treat patients and refer severe cases to the nearest health facilities. Total number of case tested 313,513 up to Dec 2011.

**Maternal, Neo Natal and Child Health Projects:** With the assistance of Govt. and UNICEF this health project reached around 18.8 million population where 77% pregnant women received 4 Ante natal care visits, 21% women were delivered by skilled birth attendants in Dec 2011.

**Manoshi (Urban):** Manoshi Project launched in 2007 in Dhaka City Corporation and provides community based maternal and child health care services in slums, with the support of slum volunteers, skilled community workers and Program Organizers based in nearby hospitals for emergency cases. This project is setting up in phases to serve slum populations in Dhaka, Chittagong, Sylhet, Barisal, Khulna and Rajshahi cities including some semi-urban areas in 2009. In Dec 2011, 5.70 million populations covered under this project where 94.72% patients received 3 or more post natal care, 79.15% patients received 4 or more Ante natal care.





Table 5:

BRAC Health Care	Dec 2011	June 2011	Dec 2008
No. of BRAC Health Centers	31	31	31
Malaria Total Case Tested	313,513	194,884	147,390
Pregnant Women Received ANC (In million)	5.70	5.66	1.35
Tuberculosis Population Covered (In million)	94.3	94.3	88.5
Community Health Volunteers	91,000	80,000	74,000

**Shushasthaya (BRAC Health Centers):** Started in 1995 these health centers targeted to strengthen community based health care and provide better curative services for low privileged areas. Up to Dec 2011, in 31 "Shushasthaya" center 365,163 patients treated.

**Limb and Brace filling Centers (BLBC):** There are 2 BLBC centers of BRAC which provide low cost, user friendly, quality artificial limbs and braces and physiotherapy to enhance mobility of the disable. During Dec 2011 a total 11,708 patients received different types of services from the center.

#### Highlights of 2011:

1. BRAC Shasthya Sebika's provided antenatal care to over 4.4 million pregnant women.
2. There are 390 BRAC delivery centers established in urban slums.
3. Essential newborn care was offered to 427,703 babies at birth.

#### New Initiatives:

1. M-Health (mobile health): m-health enables urban MNCH programme, "Manoshi" to design a mobile based platform for CHWs to collect data and provide health services. So far 34 Shasthya kormis and 12 agents are trained to provide emergency support. A functional emergency support centre has also been established
2. BRAC healthcare innovations programmes (B-HIP): This innovation and comprehensive health protection scheme seeking to offer universal health coverage.
3. Community based prevention and control of non communicable diseases (NCDs): a community based programme has been initiated to provide non communicable diseases services and reduce risk at community level.

#### ■ Community Empowerment

BRAC's community empowerment programme empowers the poor, especially women, by mobilizing communities to translate awareness into action. This programme gives women the tools they need to bring about positive change in their own lives by increasing their human, social and political assets so they know their rights and can claim their entitlements, resist exploitation and play an active role in public life. 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.

#### Highlights of 2011:

1. BRAC organizes 600,000 rural women through 11,234 polli shomaj and 1,217 union shomaj.
2. Polli shomaj and union shomaj have taken actions against 76,328 incidents of social injustice and violence

against women.

3. BRAC has identified and reported 12,000 incidents of violence of which 8,000 violence survivors have received support including medical aid, shelter home and rehabilitation.

**Table 6:**

Community Empowerment Program	Dec 2011	June 2011	June 2010
No. of Polli Shomaj	11,234	11,278	11,830
No. of Union Shomaj	1,217	1,089	948
No. of HRLS Graduates	3.70 million	3.60 million	3.50 million

**New Initiatives:**

1. Community radio: A major new initiative in 2011 is the launching of community radio in Moulvibazar in an attempt to increase access to information and strengthen grassroots voices.
2. Creating awareness on Right to Information (RTI) Act: BRAC creates a cadre of 145 volunteers serving as infomediaries to assist to rural poor in accessing information using the RTI Act.

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

BRAC Human Rights and Legal Aid Services (HRLAS) empower the poor and marginalized by informing them of their legal and human rights. Its 'barefoot lawyers', the pioneering troop of the world's largest NGO-led legal empowerment initiative, delivers legal services to the doorsteps of millions. By organizing legal education classes, BRAC gives the poor knowledge they need; by providing legal aid through staff lawyers, BRAC helps them assert their rights and by engaging local community leaders to foster more widespread awareness of legal issues, helps them transform themselves into agents of social change. By 2011 BRAC HRLAS extended its service to over 18 million people in 55 districts. Number of HRLS graduates in cumulative amount from inception to June 2011 was 3.65 million.

**Table 7:**

Human Rights & legal Aid Services	Dec 2011	June 2011
Human rights & legal education classes held	160,307	157,917
Community leaders workshop held	14,943	14,381
Complaints received	167,519	158,498
Complaints resolved by ADR	90,805	85,724
Cases sent to court	29,348	27,302
Judgment received in favor	14,633	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. Now it reaches 13.3 million people in 13 districts.

**■ DISASTER, ENVIRONMENT AND CLIMATE CHNAGE**

**Highlights of 2011**

BRAC disaster management programme helps communities become more resilient to natural disasters. BRAC develops prevention and adaptation strategies while building the capacity of communities to respond rapidly and effectively. This programme provides training, simulation sessions and situation reports to both staff and communities to improve preparedness. Over 8,000 staff of different BRAC program, 50,000 members of BRAC Polli Shamaj, 40,000 teachers of BRAC primary school and 78,000 "Shashthya shebika" 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.

#### **New Initiative:**

BRAC is involved in designing a model disaster resilient habitat (DRH) settlement in the southern part of Bangladesh by involving communities, using local materials and indigenous knowledge. With the help of BRAC University and UNDP, BRAC has constructed 42 DRHs where community members will be able to take shelter during disasters.

#### **■ Targeting the Ultra Poor (TUP)**

BRAC's "Targeting the Ultra poor" program focuses on improving the economic and social situation of those people who are living in extreme poverty. This group struggles to meet its minimal dietary requirements and has proven difficult to reach with more mainstream anti poverty programmes like microfinance. To help these types of under-privileged people various processes included like deliberate sequencing of interventions including asset grants, skill development and personalized healthcare support. The programme is now being adapted by other organizations in countries around the world. BRAC TUP has reached ultra poor households in 34 of 64 districts in Bangladesh. So far the program has invested in 1.30 million households: 400,000 with full grants and 600,000 with grant plus credit.

#### **Highlights of 2011:**

- 60,800 Ultra poor households received enterprise development training.
- 43,800 Ultra poor household received income generating asset.
- 17,000 Ultra poor households received soft loans.
- 16,999 Ultra poor household received inputs for agricultural activities.
- 60,800 Ultra poor households received subsistence stipend.
- 203,347 Ultra poor households received tailor made healthcare services.

#### **■ ADVOCACY FOR SOCIAL CHANGE**

Advocacy programme seeks to influence policymakers, resources holders, access providers and individuals to implement policies that bring about positive changes in the lives of the poor and marginalized. BRAC use the power of the media to give voice to those who would otherwise go unheard, such as ultra poor and migrant workers. BRAC advocacy programme now reaches 13.3 million people in 13 districts in Bangladesh, helping to improve the overall state of human rights in the country.

#### **Highlights of 2011:**

1. Facilitated policy dialogues with 905,477 programme participants.
2. Media covered BRAC 684 times in the year 2011.
3. Our efforts led the term 'ultra poor' to be included in the national budget.
4. 88 community based voluntary forums which mobilized more than 522,000 taka and distributed to 1,091 of the extremely poor to support income generation.

#### **■ GENDER JUSTICE AND DIVERSITY**

Gender Justice & Diversity programme works simultaneously within the organization and with the community to eliminate gender injustice. This programme strives for equality, diversity and inclusiveness within BRAC; improves gender relations and empowers women at the household level across many of its programmes and works to ensure that girls and boys are equitably nurtured to their full potential from pre primary through secondary school. The programme 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 2011:**

- "Mejnin" (Safe citizen for girls) built awareness and self confidence among 14,680 students and 3,300 parents.



- Gender quality action learning (GQAL) aims to create community movement that recognizes violence against women as a crime and then actively combats it. GQAL raised awareness among 30,000 households' members and trained 3,000 gender justice.
- Position launched in 2011 works with local communities to combat domestic violence and gender based discrimination in ten unions of two sub districts covering 190,000 households.

#### ■ WATER, SANITATION AND HYGIENE

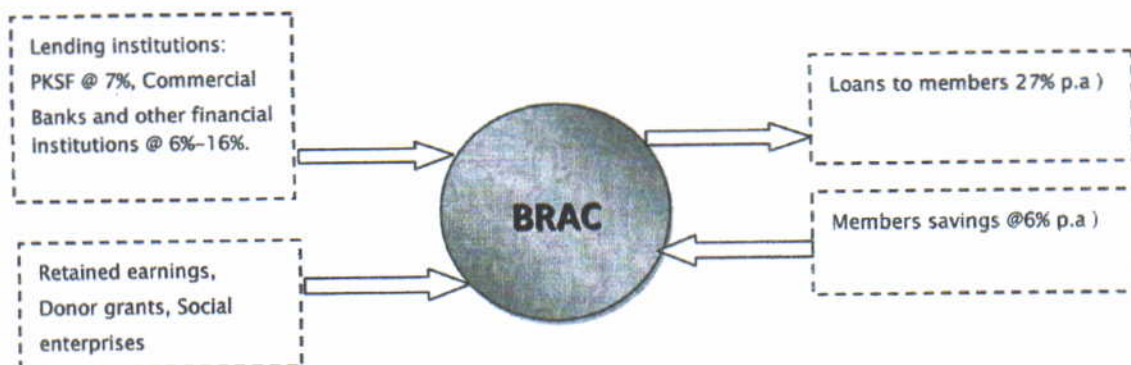
BRAC Water, Sanitation and Hygiene (WASH) programme is aimed to reduce the proportion of people without access to safe drinking water and basic sanitation by half. This programme has reached over 38 million people, provides sustainable and integrated WASH services in rural and isolated areas, breaking 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 2011:

- Provided 16,430 clients with sanitation support, converted 84,617 unhygienic latrines to sanitary latrines.
- Installed 708 latrines in schools.
- Installed 706 deep tube wells and five pond sand filters.
- 4,624 training sessions for ring slab entrepreneurs, 77,302 leadership training for village WASH communities and 14,463 for health volunteers.
- To promote hygiene practices held 322,524 meeting with male participants, 3,357,509 meetings with female participants, 313,170 with adolescents boys, 621,177 with adolescents girls and 520,656 with children.

#### ■ 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, PKSF. BRAC takes loan from PKSF at 7% and 6%-16% from other financial institution.



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 304,950 Village Organizations. There are 6.77 million VO members up to December 2011. In 2011, BRAC micro finance program has successfully transitioned to monthly repayment for its 'DABI' clients of better socio economic conditions. This provides more

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





flexibility and helps reduce operating cost of this program. In 2011, BRAC micro finance program has introduced loan scheme facility to facilitate overseas migration of Bangladesh workers.

#### MICRO CREDIT SERVICES

**Savings:** BRAC has 03 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.

**Compulsory savings:** Each member can deposit a minimum amount of BDT 10 weekly meeting. The amount is to be deposited weekly which is fixed by the member at the beginning meeting of the year. The interest rate for the savings is 6% from 1<sup>st</sup> June 2011. **Voluntary savings:** Each member can save for 3 years, 5 years, 8 years and 10 years on a monthly basis. The voluntary savings vary between BDT 100 to BDT 1,000. The interest rate is 7% for 3 years, 7.45% for 5 years, 8.5% for 8 years and 9.02% for 10 years. In 2012 voluntary savings amount was BDT 2,550.85 million. **Term deposits:** Each member can save 1 to 10 years for a fixed time period. The amount will be between BDT 10,000 to BDT 100,000. Term deposit was BDT 3,900.70 million by the end of June 2012. Total members savings amount reached BDT 23,113 million registered a growth of 14.27%.

**CREDIT PROGRAM:** BRAC provides loans to its VO members to initiate different income generating activities. Loans to VO members have to bear annual service charge (a) General micro finance 15% flat (27% declining balance method from 1<sup>st</sup> June 2011 ) (a) Agricultural loan 10% flat (20% declining balance method. Repayments of loans are made in weekly/biweekly or monthly installment. BRAC micro finance program has two segments; one is named as "Dabi" (combining Dabi and Unnoti) and another named Progoti. BRAC micro finance program shared 46.16% of total BRAC net surplus.

Table 8:

Credit Ladder	Definition of Target Group	Terms & Condition	Product Details
DABI	DABI Target women from households	DABI members must attend weekly VO meetings regularly.	Loan size ranges between BDT 10,000 - 75,000
	Than own no more than 1 acre of land (including homestead)	Saves regularly	interest rate 20%-27% declining balance method
	They earn their living by selling their manual labor	Not to be related with other NGO's	Repayments : 46 equal weekly and 12 monthly installment over one year period.
	That lives permanently in that area.		
PROGOTI	PROGOTI targets men and women who operate existing micro enterprise and are looking forward to expand	PROGOTI members must have good entrepreneurial skill	Loan size ranges between BDT 75,000 - 500,000 above
	They are DABI graduates or other	They can open a bank account to receive their loan	interest rate 20%-27% declining balance method
	looking to start a micro enterprise		Loan terms 12, 18 and 24 months
			Repayment monthly installment

#### 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	30 June 2012	30 June 2011	30 June 2010	30 Dec 2009
Loan Portfolio(BDT Mill)	57,241.19	45,880.73	44,886.40	45,399.62
Portfolio Growth (%)	24.76	2.22	-0.54	-2.07
Portfolio at Risk (BDT Mill)	4,346.95	4,986.53	6,388.97	6,983.85
PaR Growth (%)	-12.83	-21.95	27.47	32.89

**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. Total loan portfolio of BRAC stood at BDT 57,241.19 million whereas PaR [ $\geq 30$  Days] stood at BDT 3,303.5 million, which was 5.77% of total portfolio and 76% of total NPL. The loan portfolio growth 24.76% in June 2012: compared to portfolio growth (FY 2011: 2.22%). In the Table 10 PaR [ $\geq 30$  Days] and PaR [ $\geq 180$  Days] as well as PaR [ $\geq 30$  Days] and PaR [ $\geq 180$  Days] after adjusting renegotiated loans were calculated.

Table 10:

Ratio (%)	June 2012	June 2011	Dec-10	June-10	Dec-09
PaR $\geq 30$ days	3.64	4.92	1.72	4.36	2.78
PaR $\geq 180$ days	2.09	3.40	1.15	3.6	1.96
<b>Includes Renegotiated loan (%)</b>					
PaR $\geq 30$ days	5.77	7.97	7.95	7.98	7.98
PaR $\geq 180$ days	4.22	6.45	7.37	7.21	7.16

#### PROVISIONING AND RESERVE

From table 11 it showed that proportion of loss category was the largest share in non-performing loan. Principal outstanding of loan portfolio of BRAC as on 30 June 2012 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 in the table 11. BRAC current loan loss reserve is kept accordingly with the required (Best Practice basis) loan loss reserve.

Table 11:

Loan classification On 30 June 2012	Days in Arrear	Rate of provision	Principal Outstanding	Proportion(%)	Required Provision
<b>Amount in BDT mill</b>					
Standard	Current	2%	52,894.23	92.41	1,057.90
Watch list	1-30 days	5%	1,043.40	1.82	52.20
Substandard	31-180 Days	25%	886.40	1.55	221.60
Doubtful	181-350 Days	75%	79.80	0.14	59.90
Loss	Over 350 Days	100%	2,337.40	4.08	2,337.40
Additional provision	-	-	-	-	418.70



Total	57,241.20	4,147.60
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Provision Expense Ratio gives an indication of the expense incurred by BRAC to anticipate future loan losses. The provision expenses ratio decreased 1.0 percentage point in 2011. However BRAC has kept its provision balancing its portfolio quality.

Table 12:

	June 2012	June 2011	Dec 2010	2009
<sup>2</sup> Provision Expense Ratio (PER) (%)	3.16	4.15	4.37	4.67

The loan loss reserve ratio reflects accumulated provision expenses (minus write-offs), which decreases to 7.26% in June 2012 from 10.96% in June 2011.

Table 13:

	June 2012	June 2011	Dec 2010	June 2010	2009
<sup>3</sup> Loan Loss Reserve Ratio (%)	7.26	10.96	11.21	11.09	10.20

#### RISK COVERAGE RATIO

Table 14:

	June 2012	June 2011	Dec 2010	June 2010	2009
<sup>4</sup> Risk Coverage Ratio (%)	125.55	136.64	140.41	138.09	127.44

The Risk Coverage Ratio shows that in June 2012 it was 125.55% (in June 2011 it was 136.64%) of the Portfolio at Risk is covered by actual loan loss reserves. The reserve ratio decreased slightly. The Risk Coverage Ratio is analyzed in conjunction with Portfolio at Risk and Write-offs, since all three are interdependent. A PaR [ $\geq 30$  Days] after adjusting renegotiated loan of 5.77% of loan portfolio on June 2012 can be termed as moderately safe as 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.

Table 15:

	June 2012	June 2011	Dec 2010	June 2010	Dec 2009
<sup>5</sup> Write-Off Ratio (%)	4.81	4.11	3.41	2.56	2.16

The Portfolio at Risk PaR [ $\geq 30$  days] ratio from 2010 to 2012 has increased so is write-off loan. BRAC write-off loans which are overdue less than 350 days, than PaR [ $\geq 30$  days] (before adjusting renegotiated loan) thus decrease to 3.64 % in June 2012 from 4.92% in June 2011.

#### EFFICIENCY AND PRODUCTIVITY

Table 16:

	June 2012	June 2011	Dec 2010	June 2010	Dec 2009
<sup>6</sup> Efficiency Ratio (%)	16.54	13.79	14.12	15.40	18.25
<sup>7</sup> Operating Expense Ratio (%)	12.19	13.09	11.72	10.05	10.64

<sup>2</sup> Provision expense ratio = Loan loss provision expense / Average Gross loan.

<sup>3</sup> Loan loss reserve ratio = Loan loss provision/ Loans to members.

<sup>4</sup> Risk coverage ratio = Loan loss reserve / (Outstanding loans on arrear + Refinance loan).

<sup>5</sup> Write off ratio = Write off loan / Average Gross loan

<sup>6</sup> Efficiency ratio = Financial cost of operation / Total long term liabilities

<sup>7</sup> Operating expense ratio = Operating expense / Average Gross loan

The Asset size of BRAC stands at BDT 62,995 million on 30 June 2012 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 June 2012 was BDT 57,241 million (30 June 2011 is BDT 45,880 million), which was disbursed to 8.12 million members. BRAC'S operating expense ratio was 12.19% up to 30 June 2012 (30 June 2011: 13.09%) indicating decrease in administrative expense which grew 6.13% from previous year.

#### OTHER INDICATORS

On an average BRAC incurred 6.4% cost for BDT 100.00 money lent. Cost per loan made is BDT 1,769 in 2012. The trend of cost per unit of money lent indicates that BRAC'S efficiency increased controlling cost in terms of utilization of money. However, Cost per loan made shows a marginal increased trend in 2012. At the same time, the Portfolio per Credit Staff ratio increased in 2012.

Table 17:

	June 2012	June 2011	Dec 2010	June 2010	Dec 2009
<sup>8</sup> Cost Per Unit of Money Lent (%)	6.4	7.8	6.9	6.3	5.9
<sup>9</sup> Cost Per Loan Made	1,769	1,702	1,494	787	1,133.1
Portfolio Per Credit Staff (In million)	4.2	2.7	2.4	2.9	2.9
Borrower Per Staff	328	332	303	389	416

#### FINANCIAL MANAGEMENT

The financial expense ratio presented in the following 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 18:

	June 2012	June 2011	Dec 2010	June 2010	Dec 2009
<sup>10</sup> Financial Expense Ratio (%)	6.26	5.21	6.32	6.93	8.46

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 be determined by adding the Financial Expense Ratio, Provision Expense Ratio and Operating Expense Ratio. As of June 2012, Financial Expense Ratio is 6.26%, Provision Expense Ratio is 7.26% and Operating Expense Ratio is 12.19% through these ratios minimum lending rate for BRAC in 2012 can be calculated which would be (6.26% + 7.26% + 12.19%) = 25.71%

Table 19:

Funding Structure of BRAC (June 2012)		
	Amount in BDT mill	%
<b>Current Liability</b>		
Members Savings	4,535.91	7.20
Bank Overdraft	7,312.69	11.61
Term Loans	10,042.80	15.94

<sup>8</sup> Cost per unit of money lent = Operating cost / Loan disbursed.

<sup>9</sup> Cost per loan made = Operating cost / Number of loan made

<sup>10</sup> Financial expense ratio = Financial expense / Average asset



Other Liabilities	3,171.77	5.03
<b>Sub total</b>	<b>25,063.17</b>	<b>39.79</b>
<b>Long Term Liability</b>		
Members Savings	18,578.02	29.49
Term Loan	2,990.57	4.75
Other Long Term Liability	-	-
Securitized financing	-	-
<b>Sub total</b>	<b>21,568.59</b>	<b>34.24</b>
<b>Capital Fund</b>		
Donor Fund	2,000.09	3.17
Retained Surplus	14,363.78	22.80
<b>Sub total</b>	<b>16,363.87</b>	<b>25.98</b>
<b>Grand total</b>	<b>62,995.62</b>	<b>100.00</b>

BRAC finances itself through members savings is observed in the following table 20. The funding structure of BRAC Micro Credit function as of June 2012 is given where 36.69% of its portfolio is financed through member's savings and 20.69% is from term loan. Retained surplus and donor grant consists of 25.98% of BRAC fund. On 30 June 2012 BRAC reliance on savings mobilization is stable. However, expansion of micro finance operation leads the savings mobilization and increases 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 2012 indicates that it has developed the way of accurately predicting cash needs.

Table 20:

	June 2012	June 2011	Dec-10	June-10	Dec-09
<sup>11</sup> Liquidity Ratio (%)	10.54	13.75	9.98	11.87	12.28

Though the ratios are below 20%, BRAC maintains open credit lines with commercial banks from which they are able to draw freely. As of 30 June 2012, it had 63 credit line facilities with different public and private commercial banks. There is another important measure of liquidity measuring the percentage of deposit & borrowing supported by fully liquid assets (cash and term deposit).

#### LEVERAGE AND OTHER POSITION

Table 21:

	June 2012	June 2011	Dec 2010	June 2010	Dec 2009
<b>Total Liability/ Equity</b>	<b>2.85</b>	<b>2.67</b>	<b>2.63</b>	<b>2.92</b>	<b>3.18</b>
<sup>12</sup> Capital Adequacy Ratio (%)	26.58	28.76	29.70	27.98	26.41
<b>Borrowed Fund / Equity</b>	<b>1.44</b>	<b>1.21</b>	<b>1.12</b>	<b>1.41</b>	<b>1.58</b>

BRAC's leverage ratio increased slightly reached at 2.85 in June 2012. 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. Reliance on own fund signals positive impact.

Table 22:

	June 2012	June 2011	Dec 2010	June 2010	Dec 2009
<sup>13</sup> Savings Outstanding Ratio (SOR) (%)	40.38	44.09	45.54	42.04	41.78
<b>External Loan to Savings</b>	<b>56.39</b>	<b>53.78</b>	<b>66.4</b>	<b>93.80</b>	<b>93.50</b>

<sup>11</sup> Liquidity ratio = Liquid assets / Members savings and borrowings

<sup>12</sup> Capital Adequacy ratio = Total capital fund / (Total assets - cash & banks)

<sup>13</sup> Total savings / Total principal outstanding.

### Deposit (%)

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 loan from its savings. External Loan to Savings Deposit indicates less dependence on volatile external loans rather than stable source (deposit). As of 30 June 2012, the ratio was 56.39%, the trend indicates that BRAC is dependent lesser on volatile external sources. Around 20.69% of its liabilities consist of long-term debt into capital structure obviously represents less of a risk than short-term lines of credit. Capital Adequacy Ratio of BRAC was 26.58% in 30 June 2012 indicates stable capital adequacy level which reduces overall risk of the lenders/ depositors to the BRAC. The similar message could be derived from BRAC's MF Debt Service Coverage Ratio, which stood at 1.70:1 times in 30 June 2012.

### PROFITABILITY

BRAC is a non-profit organization, the ROAE is used here as a proxy for commercial viability. ROAE of BRAC MFI decreased in June 2012. It can be marked that profitability in June 2011 decreased was due to reduced surplus income.

Table 23:

	June 2012	June-2011	Dec-2010	June-2010
Return on Average Equity (%)	16.23	10.48	15.28	15.43
Return on Average Asset (%)	4.31	2.77	3.93	3.62
Average Portfolio Yield (%)	26.19	25.65	26.86	26.63

During June 2012 BRAC's total administrative cost increased 6.13% from June 2011. Portfolio Yields measures Indicates BRAC's ability to generate cash from interest, fees, and commissions on its gross loan portfolio. In June 2012 average portfolio yield slightly increased to 26.19% from 25.65% as the affect of 27.83% growths in gross loan. In total, Portfolio Yield shows BRAC's receives as interest payments on its loans.

### SUSTAINABILITY

Operating Self Sufficiency: Operating self-sufficiency ratio of 30 June 2012 stood at 121.14%, (30 June 2011: 112.68%). It shows the ability of BRAC to cover costs of operations with internally generated income. BRAC earned 121.14% revenue to cover the organization costs.

**Portfolio Analysis:** BRAC's current loan portfolio consists of two programs namely: (i) "Dabi" Program and (ii) "Progoti" Program (Mentioned in Table 24 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 24:

Jan 2010 – June 2010	Dabi	Progoti
Loan Disbursement	BDT 23,044 mill	BDT 15,705 mill
Loan Outstanding	BDT 26,502 mill	BDT 18,385 mill
Savings Deposit	BDT 15,478 mill	BDT 3,394 mill
Active Borrower	5.70 mill	239,830
Average loan size(accounts)	BDT 13,407	BDT 133,848
Jan 2011 – Dec 2011		
Loan Disbursement	BDT 49,664 mill	BDT 36,602 mill
Loan Outstanding	BDT 29,878 mill	BDT 22,959 mill
Savings Deposit	BDT 18,498 mill	BDT 3,866 mill
Active Borrower	4.72 mill	239,566



Average loan size(accounts)	BDT 14,548	BDT 138,100
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**Grouping of BRAC Micro Credit:** BRAC's total micro finance 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 given which is self-explanatory. However, it is seen that Rural Micro credit program accounts for 50.14% in June 2012 (53.23% in June 2011).

**Table 25: Component wise Loan Portfolio ( 30 June 2012)**

Component wise loan	Amount in BDT Mil	%
Rural Micro Credit Borrowers	28,645.10	50.14
Urban Micro Credit Borrowers	1,495.04	2.62
Hard Core Poor Borrowers	452.36	0.79
Micro Entrepreneurs Borrowers	26,542.76	46.46
<b>Total</b>	<b>57,135.25</b>	<b>100.00</b>

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 57,135.25 million is presented, which gives us an insight about the portfolio quality of BRAC Micro finances operation.

**Table 26: Classification of Loan Portfolio ( 30 June 2012)**

Loans to VO members	Rural Micro Credit Borrowers	Urban Micro Credit Borrowers	Hard Core Poor Borrower	Micro Entrepreneurs Borrowers	Total
Current Portion	27,497.84	1,442.87	434.49	25,182.04	54,557.25
Regular	8.41	-	-	235.17	243.58
Non Performing Loan	605.21	31.59	9.56	466.16	1,112.51
Renegotiated Loan	533.64	20.58	8.32	659.38	1,221.91
<b>Total</b>	<b>28,645.10</b>	<b>1,495.04</b>	<b>452.36</b>	<b>26,542.76</b>	<b>57,135.25</b>

**Table 27: ( 30 June 2012)**

Loans to VO members	Rural Micro Credit Borrowers	Urban Micro Credit Borrowers	Hard Core Poor Borrower	Micro Entrepreneurs Borrowers	Total
Current Portion	48.13%	2.53%	0.76%	44.07%	95.49%
Regular	0.01%	0.00%	0.00%	0.41%	0.43%
Non Performing Loan	1.06%	0.06%	0.02%	0.82%	1.95%
Renegotiated Loan	0.93%	0.04%	0.01%	1.15%	2.14%
<b>Total</b>	<b>50.14%</b>	<b>2.62%</b>	<b>0.79%</b>	<b>46.46%</b>	<b>100.00%</b>

**Sector Wise Micro Credit Loans Portion:** BRAC's total loan portfolio of BDT 57,241.19 mill (Net of Provision) has been divided in terms of sector. It is found that in 30 June 2012, 11.24% of its total loan portfolio is in agricultural sector which was 14.0% in 2008. There are 46.62% and 33.54% loan disbursed in MELA and Rural Trading sector (which was 43% and 38.32% in June 2011). BRAC operates in 64 districts of Bangladesh. In June 2012 maximum and minimum concentration of portfolio was 5.6% in Comilla and 0.2% in Bandarban district.

Table 28:

Sector	June-2012	
	Amount in BDT Mill ( Net of Provision)	%
Agricultural	6,433.69	11.24
Cottage Industry	143.92	0.25
Fisheries	161.09	0.28
Food Processing	985.17	1.72
Health	14.08	0.02
Housing	34.66	0.06
Livestock and Poultry	882.39	1.54
Miscellaneous	720.99	1.26
Rural Trading	19,200.40	33.54
Rural Transport	433.10	0.76
Sericulture	63.67	0.11
UDP	1,451.64	2.54
MELA	26,686.92	46.62
Services	29.47	0.05
<b>Total</b>	<b>57,241.19</b>	<b>100.00</b>

#### Asset Liability Matching:

In the Table 29 Asset & Liability matching of different maturity ladder for the total balance sheet position of BRAC on 30 June 2012 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 of around BDT 35,553 million and cumulative liquidity gap was BDT 1,835 million.

Table 29: Asset Liability Maturity Structure (For all balance sheet position)

30 June 2012		Amount in BDT Million				
Assets	Up to 1 Month	>1<3 Month	>3<12 Month	>12<60 Month	>60 Month	Total
Total Current Asset	6,642.38	9,729.01	41,621.81	265.57	-	58,258.76
Net Loans outstanding	107.45	214.90	399.05	890.36	-	1,611.77
Property, plant and equipment	5.55	11.10	49.95	1,223.40	1,835.09	3,125.09
Total Non Current Asset	113.00	226.00	449.00	2,113.76	1,835.09	4,736.86
<b>Total Assets</b>	<b>6,755.38</b>	<b>9,955.01</b>	<b>42,070.81</b>	<b>2,379.33</b>	<b>1,835.09</b>	<b>62,995.62</b>
Liabilities and Capital						
Total Current Liabilities	2,148.73	4,799.59	18,114.84	-	-	25,063.16
Total Long Term Liabilities	-	-	-	21,568.59	-	21,568.59
Total Capital Fund	-	-	-	16,363.87	-	16,363.87
<b>Total Liabilities and Capital</b>	<b>2,148.73</b>	<b>4,799.59</b>	<b>18,114.84</b>	<b>37,932.46</b>	<b>-</b>	<b>62,995.62</b>
Net Liquidity Gap	4,606.66	5,155.41	23,955.97	(35,553.13)	1,835.09	
Net Liquidity as % of Total Asset	0.07	0.08	0.38	(0.56)		
Cumulative Liquidity Gap	4,606.66	9,762.07	33,718.03	(1,835.09)		
Cumulative Liquidity Gap as % of						
<b>Total Asset</b>	<b>7.31%</b>	<b>15.50%</b>	<b>53.52%</b>	<b>-2.91%</b>		

It is seen in the Table 30 that for the interest sensitive case up to 12 months bucket, there is no negative gap. But in >12<60 month bucket net liquidity gap was BDT 34,373 million. 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. In case of BRAC's lending model it is discouraged 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.

Table 30: Asset Liability Maturity Structure (For Interest rate sensitive asset & liability)

30 June 2012	Amount in BDT Million					
Assets	Up to 1 Month	>1<3 Month	>3<12 Month	>12<60 Month	>60 Month	Total
Total Current Asset	6,156.48	9,390.85	43,925.85	-	-	59,473.19
Net Loans outstanding	107.45	214.90	967.05	1,558.90	278.13	3,126.43
Total Non Current Asset	107.45	214.90	967.05	1,558.90	278.13	3,126.43
Total Assets	6,263.93	9,605.75	44,892.91	1,558.90	278.13	62,599.62
Total Current Liabilities	1,884.41	4,270.97	15,736.02	-	-	21,891.40
Total Long Term Liabilities	-	-	-	21,568.59	-	21,568.59
Total Capital Fund	-	-	-	14,363.78	-	14,363.78
Total Liabilities and Capital	1,884.41	4,270.97	15,736.02	35,932.37	-	57,823.77
Net Liquidity Gap	4,379.52	5,334.79	29,156.89	(34,373.47)	278.13	4,775.85
Net Liquidity as % of Total Asset	7.00	8.52	46.58	(54.91)	-	-
Cumulative Liquidity Gap	4,379.52	9,714.31	38,871.19	4,497.73	-	-
Cumulative Liquidity Gap as % of Total Asset	7.00%	15.52%	62.09%	7.18%	-	-

#### ■ BRAC ENTERPRISES

The unique model under which BRAC enterprises operate has evolved as completely home-grown and in isolation from the international dialogue regarding social enterprises. The "BRAC model" comprises of a collaborative network of Enterprises, Development Programmes and Investments – all of which together serve the comprehensive vision and objective of BRAC, i.e. to empower the poor, alleviate social/environmental imbalance and enhance financial sustainability. BRAC Enterprises are mostly incepted as a support mechanism that allows the development programmes 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 Programmes 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 2011, revenue from "Aarong" stood at BDT 4,150.03 million, registering a 3-year CAGR of 20.05%.

Table 31: Aarong

Particulars	Amount in BDT mill		
	2011	2010	2009
Total Revenue	4,150.03	3,397.34	2,701.95
Growth (%)	22.16	25.74	12.80
Net surplus for the year	693.43	703.90	508.64
Growth (%)	-1.49	38.39	25.57
Cost service provided as % of Revenue	82.97	79.57	82.31

Cost of service increased slightly from previous year. Hence, its net surplus in 2011 stood at BDT 693.43 million registering a 3 year CAGR of 15.4%.

Table 32: Aarong

Particulars	Amount in BDT mill		
	2011	2010	2009
Total Asset	2,573.58	2,178.81	1,646.2
Growth (%)	18.12	32.36	15.7

Total Liabilities	458.06	410.00	356.5
Net Assets – Capital fund	2,115.53	1,768.81	1,289.7
Growth (%)	19.60	37.15	24.44
ROAA (%)	29.62	36.81	33.15
Liability to Net surplus (x)	66.06	58.25	70.09
Liability to Asset (%)	17.80	18.82	21.66
Efficiency Ratio (%)	82.97	79.57	82.31
EBITDA / Sales (%)	16.71	20.72	18.83

In line with the growth of revenue and net surplus its asset base stood at BDT 2,573.58 million registering a growth of 18.12% from previous year. The enterprise is commercially viable) which is reflected in its ROAA. In 2011 Aarong opened its first flagship outlet in Uttara, Dhaka. Total capital fund increased to BDT 2,115.53 million which was allocated to other BRAC programs. In Dec 2011, 20.89% of total BRAC net surplus received from Aarong,

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 100 collection and chilling stations located in 25 districts, including 10 located in ultra-poor areas. The enterprise collects 102,559 litres milk daily and 40,000 farmers, 64% being women. BRAC Dairy has 23 Distributors and 37 Sales centres nationwide, covering 16,000 outlets out of 23,000 and enjoying an overall market share of 22% with a dedicated consumer base of around 500,000. BRAC Dairy produces more than 2 packets of Aarong Milk (a BRAC Dairy product) every second. Its revenue stood at BDT 2,385.27 million in 2011. BRAC Dairy is currently the only dairy company in Bangladesh to have received ISO 22000 Certification, setting an example of vigilance at every stage of dairy production, processing, and distribution contributing to dairy products' safety record. There was growth of revenue and cost control mechanism (Cost of Service as % of Revenue was steady to 91.91% in 2011, the net surplus stood at BDT 231.38 million. In Dec 2011, 6.97% of total BRAC net surplus received from BRAC Dairy.

Table 33: BRAC DAIRY

Particulars	Amount in BDT mill		
	2011	2010	2009
Revenue	2,385.27	1,891.08	1,460.84
Growth (%)	26.13	29.50	13.83
Net surplus for the year	231.38	163.30	123.95
Growth (%)	41.69	31.75	8.25
Cost service as % of Revenue	90.91	91.49	91.86

The ratios indicate increased profitability attributed to the high revenue growth, net surplus, low leverage and cost control. As of December 2011, capital fund stood at BDT 742.48 million which was only BDT 169.55 million in 2006.

Table 34: BRAC DAIRY

Particulars	Amount in BDT mill		
	2011	2010	2009
Total Asset	859.38	734.94	581.99
Growth (%)	16.93	26.50	0.32
Total Liabilities	116.90	108.99	88.49
Growth (%)	7.25	23.17	-40.45
Net Asset – Capital Fund	742.48	625.94	492.51
Growth (%)	18.62	27.09	14.40



ROA (%)	29.03	24.82	21.37
Liability/Net Surplus(x)	0.51	0.67	0.71
Liability to Asset (%)	13.60	14.83	15.23

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, 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 to over 100 workers. In Dec 2011, 15.73% and 7.10% of total net surplus came from BRAC self financed social development projects and Agro based program support enterprise.

Table 35: BRAC Printing &amp; Packaging

Particulars	Amount in BDT mill		
	2011	2010	2009
Revenue	807.38	838.15	787.14
Revenue Growth (%)	-3.67	6.48	-8.76
Net surplus for the year	38.64	72.06	48.43
Net surplus Growth (%)	-46.38	48.79	4.34
Cost of service as % of Revenue	95.05	91.41	93.86

The table 35 indicates the profitability level decrease and leverage position of BRAC Printing & Packaging increased in 2011. The capital fund of this venture increased to BDT 214.24 million in 2011 from BDT 209.57 million in 2010 which implies on the viability of the project. In Dec 2011, 1.16% of total BRAC net surplus received from BRAC Printing and Packaging.

Table 36: BRAC Printing &amp; Packaging

Particulars	Amount in BDT mill		
	2011	2010	2009
Total Assets	274.85	279.98	242.32
Growth (%)	-1.83	15.54	10.70
Total Liabilities	60.61	70.41	51.54
Net Assets - Capital Fund	214.24	209.57	190.78
Growth (%)	2.23	9.85	7.57
ROAA	13.93	27.59	21.00
Liability / Net surplus (X)	1.57	0.98	1.06
Liability to Asset	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 27% of BRAC's overall financial needs are fulfilled by various donation/external sources while the remaining 73% is financed internally by BRAC from the surplus of its enterprises and the dividend from its investments. By continuing on this model, BRAC's goal is to become 100% self-financed in future.

**Table 37: BRAC Investments In Related Undertakings**

Related undertakings (%)	2011	2010	Principal activities
BRAC Bank Ltd.	43.77	43.77	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	20.37	Housing finance
Documenta TM Ltd.	70.00	70.00	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 INTERNATIONAL

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

#### ■ OTHER DIVISIONS

**BRAC Learning Division (BLD):** BRAC invests for developing the capacity of its staff and our volunteers. BRAC training division renamed in 2011 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 2011, BLD trained 124,364 participants and arranged meetings and workshop.

**ICT :** Information and Communication Technology (ICT) department is not only 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 our 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.

**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 has revised its human resources policies and procedures came





into effect in January 2011. HRD BRAC has developed and implemented its HR policies and guidelines to ensure uninterrupted services to and spontaneous participation of employees. A change in management process has been initiated in HRD to introduce the best practices in BRAC. It works to expedite the progression of the organization. BRAC believes that the ability of the staff to perform well depends on qualities, skills and competencies. As of 31<sup>st</sup> December 2011, BRAC had 90,693 employees.

#### ■ 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 2011, two 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. 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 2011. BRAC internal auditors' team carries out internal audit as well as physical verification of inventory and special auditing request by the management. In 2011, total 8,643 reviews and audit were conducted.

#### ■ 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.

#### ■ 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 programmes in identifying existing innovations, running pilot programmes 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 programmes and supports the initiative of new ideas on how to advance BRAC's mission.



## ANNEXURE 1

Term Loans taken from following Concerns	DEC 2011	DEC 2010
	BDT	BDT
AB Bank Ltd.	11,791,844	246,926,183
Agrani Bank Ltd.	52,400,000	368,400,000
Bangladesh Bank	1,885,465,000	1,385,947,000
Bangladesh Commerce Bank (BCB) Ltd.	-	68,578,751
Bangladesh Krishi Bank (BKB)	90,843,614	100,000,000
Bank Asia Ltd.	400,000,000	50,435,972
BASIC Bank Ltd.	227,499,357	261,487,349
Citi Bank NA [guaranteed by OPIC & IFC]	543,750,000	1,268,750,000
Citi Bank NA [local currency syndication]	190,000,000	342,000,000
Dutch Bangla Bank Ltd.	74,231,260	215,408,417
Eastern Bank Ltd.	299,785,929	355,072,194
Export Import Bank of Bangladesh (EXIM) Ltd.	-	89,391,804
FMO, Netherlands	733,607,144	978,142,857
HSBC Bank Ltd.	1,200,000,000	390,000,000
Islamic Development Bank (IDB)	343,450,000	343,450,000
Jamuna Bank Ltd.	11,980,299	33,538,733
Janata Bank Ltd.	39,854,545	176,805,298
Mutual Trust Bank Ltd.	-	84,317,272
National Bank Ltd.	-	252,885,345
Norfund, Norwegian	293,442,856	391,257,143
Palli Karma Shahayak Foundation (PKSF)	-	180,000,000
Pubali Bank Ltd. (PBL)	57,728,118	47,291,391
Rajshahi Krishi Unnayan Bank (RAKUB)	260,000,000	424,508,500
Rupali Bank Ltd.	100,000,000	280,000,000
Shahjalal Islami Bank Ltd.	42,044,973	216,444,159
Sonali Bank Ltd.	220,862,915	457,332,103
Southeast Bank Ltd.	-	79,146,458
Standard Chartered Bank (SCB)	4,086,885,714	3,862,514,284
State Bank of India	-	30,000,000
The City Bank Ltd.	-	62,500,000
Uttara Bank Ltd.	-	25,043,809
<b>Total</b>	<b>11,165,623,568</b>	<b>13,067,575,022</b>





**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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