



**BRAC Lanka (Guarantee) Limited**

**2012**  
Annual Report

## Sri Lanka

An Indian Ocean island republic famous for its tea, coffee and cinnamon, Sri Lanka bore the brunt of the 2004 Asian tsunami. BRAC quickly responded to the disaster by setting up relief and emergency operations in 2005. Since then, BRAC has expanded its outreach in the country, touching the lives of an estimated 527,000 Sri Lankans, helping to improve livelihoods through rigorous capacity development training and providing over USD 92.5 million in microloans, with 63,346 active borrowers across the country's 15 most vulnerable districts.

What started out in 1972 in a remote village of Bangladesh as a limited relief operation, turned into the largest development organisation in the world. Of major non-governmental organisations, BRAC is one of the few based in the global south.

Today, BRAC is a development success story, spreading solutions born in Bangladesh to 10 other countries around the world – a global leader in creating opportunity for the world's poor. Organising the poor using communities' own human and material resources, it catalyses lasting change, creating an ecosystem in which the poor have the chance to seize control of their own lives. We do this with a holistic development approach geared toward inclusion, using tools like microfinance, education, healthcare, legal services, community empowerment and more.

Our work now touches the lives of an estimated 126 million people across the world, with staff and BRAC-trained entrepreneurs numbering in the hundreds of thousands – a global movement bringing change to 11 countries in Asia, Africa and the Caribbean.

# CONTENTS

01	Mission, Vision and Values
02	Chairperson's Statement
04	Corporate Governance
06	Microfinance
10	Support Programmes
11	Country Map
12	BRAC Across the World
14	Governance
15	Management
15	Development Partners
16	Operational and Financial Highlights
19	Financial Statements

# Vision, Mission and Values

## Vision

A world free from all forms of exploitation and discrimination where everyone has the opportunity to realise their potential.

## Mission

Our mission is to empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social programmes that enable men and women to realise their potential.

## Values

### Innovation

For forty years, BRAC has been an innovator in the creation of opportunities for the poor to lift themselves out of poverty. We value creativity in programme design and strive to display global leadership in groundbreaking development initiatives.

### Integrity

We value transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. We hold these to be the most essential elements of our work ethic.

### Inclusiveness

We are committed to engaging, supporting and recognising the value of all members of the society, regardless of race, religion, gender, nationality, ethnicity, age, physical or mental ability, socioeconomic status and geography.

### Effectiveness

We value efficiency and excellence in all our work, constantly challenging ourselves to perform better, to meet and exceed programme targets, and to improve and deepen the impact of our interventions.



## Chairperson's Statement



It gives me great pleasure to present the annual report and the audited financial statements for the year ended 31 December 2012.

After decades of conflict, Sri Lanka underwent an economic miracle, reaping a peace dividend that has seen some of the fastest development in Asia. BRAC's work in Sri Lanka aims to build livelihoods to help turn the peace dividends into a practical reality.

Our microfinance programme aims to address the scarcity of financial access to poor women by providing them with targeted financial services. BRAC strongly believes that the poor are able to help themselves when organised effectively. With this in mind, we conduct comprehensive door-to-door surveys, consulting traditional and government leaders to select poor, uneducated but economically active women. At the core of our intervention is the collateral-free microloan, exclusively provided to women participating in the village organisations.

Understanding the limits of microfinance, we target poor but economically active women and the combination of all our efforts results in enhanced livelihoods of women across the country. This in turn has ensured progress towards achieving the first and third



Millennium Development Goals, eradicating extreme poverty and hunger and the empowerment of women.

Despite the fund constraints and high staff turnover due to government employment scheme we were able to disburse USD 18.32 million in loans in 2012 to our 63,346 borrowers.

BRAC is planning a joint venture with Lanka ORIX Limited, a local leasing company and TRIODOS Bank of the Netherlands for a transformational change of our microfinance programme to a finance company so that we would be able to expand and diversify our target market, and provide our clients with more facilities and services. We want to implement product diversification and introduce seasonal loans to simultaneously function with our existing operations.

In Sri Lanka, BRAC's holistic microfinance programme acts as a capacity-building platform. Clients are encouraged to save and learn from each other, before being given careful support to select, develop and manage their own small businesses effectively. BRAC's clients and staff go on to act as highly effective vehicles for development within their communities.

I would like to take this opportunity to thank our team in Sri Lanka who have worked diligently under difficult circumstances. I extend my sincere thanks to the members of the governing body, whose leadership and foresight has been of great value. As situation continues to evolve, BRAC will continue to re-evaluate its strategy. I thank the Sri Lankan government and our development partners in Sri Lanka for their continued support as we strive to create greater value in our services to contribute towards the progress and prosperity of Sri Lanka.



**Sir Fazle Hasan Abed, KCMG**

Founder and Chairperson  
BRAC & BRAC International

# BRAC International

## Governance and Management

## 1. Governance

### 1.1 The legal status of BRAC International

BRAC International is registered as Stichting BRAC International, a foundation registered under the laws of The Netherlands, with its seat in The Hague. All of BRAC International's development entities operate under this umbrella. Development programmes include health, education, agriculture, livelihoods, targeting the ultra poor, human rights & legal services programmes. BRAC International Holdings B.V. is a wholly owned subsidiary of Stichting BRAC International. BRAC International's microfinance, programme supporting enterprises and finance company are consolidated under this wing. Programme supporting enterprises currently include seed production, feed mill, training centres and tissue culture lab.

BRAC International has introduced programmes in Afghanistan, Haiti, Sri Lanka, Pakistan, Uganda, Tanzania, South Sudan, Sierra Leone, Liberia and Philippines. In each of these countries, BRAC International is legally registered with the relevant authorities.

### 1.2 Governing Body

BRAC International is governed by a governing body. The governing body is elected from among distinguished individuals with sound reputations in social development, business or the professions who have demonstrated their personal commitment to pro-poor causes. These individuals are elected to the governing body to bring their diverse skills, knowledge and experiences to the governance of BRAC International. At present, there are 10 members on the governing body. The governing body usually meets four times a year, in accordance with the rules of Stichting BRAC International. The composition of the present governing body of Stichting BRAC International is as follows:

### Members of the Governing Body

Chairperson : Sir Fazle Hasan Abed  
 Member : Dr Mahabub Hossain  
 Muhammad A (Rume) Ali  
 Ms Susan Davis  
 Ms Sylvia Barren  
 Dr Debopriya Bhattacharya  
 Ms Shabana Azmi  
 Mr Shafiq ul Hassan  
 Ms Parveen Mahmud  
 Ms Irene Zubaida Khan

### The composition of the present Governing body of BRAC International Holdings B.V. is as follows:

Chairperson : Sir Fazle Hasan Abed  
 Member : Dr Mahabub Hossain  
 Muhammad A (Rume) Ali  
 Ms Susan Davis  
 Ms Sylvia Borren  
 Orangefield Trust (Netherlands) B.V.

Details about the roles of governing body are available in the Deed of Incorporation of Stichting BRAC International and BRAC International Holdings B.V.

### 1.3 Local Boards

Each country entities have a local board. We have aimed to pursue microfinance and non-microfinance activities through separate entities in most of our countries. The local board members are appointed by the Stichting BRAC International board. The business of the local entities is managed by these local boards. Further details of the roles of the local board are available in the respective incorporation documents of these entities.

### 1.4 Accountability and Transparency

The internal audit department normally conducts audits at all our cost centres on a sample basis. All departments or units in which irregularities are detected through the course of normal internal audit are then audited. Audits take place at least once a year and twice or more in locations and on programmes where a closer watch is warranted.

External audit of Stichting BRAC International, BRAC International Holdings B.V. and all of our legal entities are undertaken annually. Financial transparency is ensured by BRAC International's finance and accounts division, which prepares financial statements following the International Financial Reporting Standards (IFRS) and relevant countries' laws.

BRAC International strives for excellence and transparency in financial reporting. In Uganda, BRAC has been recognised as the Best NGO in the Financial Reporting Awards in both 2011 and 2012, for its preparation, disclosure and maintenance of a commendable financial reporting platform.

## 2. Management

At all levels of BRAC International management, there is a clear-cut policy regarding the authority of each level of staff, and staff are adequately equipped and empowered to act as effective managers. This is clearly set out in BRAC International's Human Resources Policies and Procedures (HRPP) and Table of Authority. The

appropriate staff are empowered to take decisions with respect to all levels and areas of management, including: recruitment, deployment, capacity-building, transfer, leave, financial transactions, purchase and procurement. These are spelled out in detail with respect to staff at the Area, regional and country office levels. The HRPP also contains all policies relating to staff salary, benefits, recruitment and promotion procedures and payments. Every staff member receives orientation on HRPP.

The Stichting board appoints officers, namely the Senior Directors, Group CFO and Director Finance to manage affairs from the secretariat in Dhaka. BRAC International's management policies clearly define the authority of each level of staff. The appropriate staffs are empowered to take decisions at area, regional, country and Head Office levels. Procedural manuals and policy documents are made available to staff; these detail organisational policies and procedures. Day-to-day decisions are taken by area managers, regional coordinators and programme heads as appropriate, while larger policy decisions involve Country Representatives, Senior Directors, Group CFO, Director Finance and, in particular cases, the Executive Director, the Chairperson and the governing body.

## 2.1 Financial Management

All matters relating to finance and accounts from branch offices to head office are supervised and controlled by the finance and accounts department. The branch offices prepare project wise monthly cash requisitions, which are sent to the area/regional office. The area/regional office checks and monitors the accuracy of the requisition and then sends it to country office. After checking, the Country Office disburses funds as per the requisition. The Area I Branch Offices send monthly Expenditure Statements

along with bank statements to the Country Office Finance and Accounts Department. The country office then consolidates all the expenditure statements and prepares monthly financial statements and reports to the BRAC International Head Office and donors, as required. A comprehensive accounting manual and statement of standard operating procedure guides accounts personnel in preparing financial statements and reports following accounting standards, and in running other financial activities in a systematic and efficient way.

In consultation with different level of stakeholders, the country office prepares project-wise budgets, which are then sent to the Head Office. The head office checks the project-budgets of its country offices, which is recommended by the Director Finance and finally approved by the Group CFO. The head office also consolidates and prepares a country budget, prepares budget variances and submits these to the governing body in the quarterly board meetings of BRAC International's Governing Body. The budget is therefore prepared with the participation of programme and finance staff.

Further details can be found within BRAC International's accounts and finance manual.

## 2.2 Human Resource Management

The Human Resources Department (HRD) in both head office and within each country in which BRAC International operates is chiefly responsible for recruitment, deployment, staff appraisal, and all aspects of Human Resource Management (HRM) from head office. One of the central roles of the HRD is to establish and disseminate a clear-cut policy regarding the authority of each level of staff, in the form of the Human Resources Policies and Procedure (HRPP). The HRPP also contains all policies relating to staff salary, benefits, recruitment and promotion procedures, payments,

and a detailed code of conduct etc. Every staff member receives orientation on HRPP.

## 2.3 Staff training and capacity-building

BRAC International places high priority on the training and capacity-building of staff. To date, there are BRAC Training Centres in Liberia, Uganda and Afghanistan. In other countries BRAC hires training facilities near the areas offices.

After recruitment and before deployment, new staff is sent for orientation training by the training division, in which they are introduced to BRAC International's programmes, its objectives and mission. After this, they are deployed in the respective programme areas in the field. According to the needs of the different programmes, staffs are then given programme specific training. Most programmes also have separate training units within the programme unit, for more specialised training. BRAC International also sends staff on short and longer-term international training courses.

In line with its commitment to investing in its staff, BRAC International is continually seeking to improve its human resource management practices, in order to deliver better services to the poor, in particular women. Recent initiatives include:

- Strengthening communication systems within and beyond the organisation, in part to improve learning mechanisms within BRAC International
- Efforts to address gender relations, anti-bribery and corruption, data protection, child protection, conflicts of interest, and culture within the organisation
- Introducing performance appraisal
- A mentoring programme to support junior staff in their personal and professional development.



# Microfinance

Innovative, client-focused and sustainable, BRAC's microfinance programme is a critical component of our holistic approach to support livelihoods. Over the course of the last four decades, we have grown to become one of the world's largest providers of financial services to the poor, providing tools that millions can use to better manage their lives.

## Filling service gaps for the poor

With its inception in 2005 immediately after the devastating Tsunami, BRAC diversified its intervention from relief to microfinance, with the vision of sustainable future for both the organisation and its clients in Sri Lanka. We are currently operating as BRAC Lanka (Guarantee) Ltd in the country, playing a key role in Sri Lankan microfinance industry. We have 63,346 borrowers who are served by 623 trained staff in 15 districts of Sri Lanka. The salient feature of BRAC is its remarkable efforts to protect the core value of microfinance with its concept of village organisations where economically active women are empowered to achieve better living standards.

We provide poor women with access to targeted financial services. We strongly believe that the poor are able to help themselves when organised effectively. With this in mind, we conduct comprehensive door-to-door surveys, consulting community and government leaders to select poor, uneducated but economically active women. To date, we mobilised over 112,000 such women into village organisations (VOs), each consisting of 20 to 40 members, across 15 districts out of 25 of Sri Lanka. These groups, led by rigorously trained BRAC credit officers, network and support the women to be effective conduits for their own social and financial change.

### Serving women borrowers

At the core of our intervention is the collateral-free micro loan, exclusively provided to women participating in the VOs. Understanding the limits of microfinance, we target poor but economically active women, typically

involved in tailoring, fishing, food processing, agriculture and small businesses. Our credit officers are responsible for identifying clients and forming VOs from among the women in their target areas.

### Targeted clients

- Poor, economically active women between the ages of 18 to 60
- Living within five kilometres of one of our 87 branch offices, for a period of at least five years
- Not served by other microfinance providers
- Female-headed households and widows with children

Our women borrowers must first organise themselves into groups of five, each with their own elected leader. These groups meet weekly in their VOs to receive support and discuss their business challenges and successes. In these meetings, borrowers make loan repayments and receive further disbursements under the guidance of their trained credit officer.

### Disbursement criteria

- Household monthly income less than or up to LKR 15,000 (USD 118)
- Participation in six weekly group meetings prior to the start of disbursements
- Loan range of LKR 10,000-100,000 (USD 80-800)
- Repayment in equal weekly instalments
- 15 per cent flat rate of interest
- A benefit amount of LKR 10,000 (USD 80) provided to family on the borrower's death



Women attending weekly village organisation collection meeting in Madapathana neighbourhood of Galle district

## Beyond 2012

We are exploring opportunities for joint ventures in order to expand and introduce more services to our clients, including seasonal loans.

Developing our human resources, especially effective leaders, is increasingly becoming a priority for us. To that end, we plan to implement the Young Professionals Programme.

## 2012 Highlights

Despite the fund constraints and high staff turnover we disbursed USD 18.32 million in loans and maintained an outstanding of USD 8.77 million with the 0.64 per cent PAR (30 days in December 2012).

In 2012, we received a USD 200,000 grant, which we distributed in three branches of Gampaha area.

This year we opened a holding company called BRAC Lanka Investment (Pvt) Ltd in Sri Lanka, which is expected to play a significant role in further transforming our organisation in the country.

In 2012, 104 of our staff received orientation on BRAC organisational culture and values and managerial competency development training and around 350 of our staff received training on basic understanding of microfinance operation in Sri Lanka.

## CASE STUDY



Kusumawathi in her shop, which she opened with loans that she received from BRAC. She is planning to expand her business

### KUSUMAWATHI: Enjoying a life of prosperity

"BRAC is the only organisation who helped me. As the interest rate is very low and the weekly instalment system is so easy to us, we like BRAC. Now we are very happy as a family, and most importantly my children have the opportunity to receive a good education."

Kusumawathi is a member of the Delgasduwa village organisation. She lives in the Galle district, the southern part of the country. She joined BRAC five years ago with the hope to improve her food-processing business. At the time when she needed help the most, it was only BRAC who came forward. She took out a loan of LKR 15,000 (USD 118) which she fully invested in her business. She started making lunch packets and selling them, which significantly boosted her income. From her family, she had inherited two small houses, which she repaired with the second and third loans she took from BRAC. She rented both the houses and rented out to 15 people from the DSI Company to further stabilise her income.

With her fourth and fifth loans from BRAC, Kusumawathi's business continued to flourish. The success of her business ventures enabled her husband to confidently give up his business as a fruit seller and join her in her endeavours. With her sixth loan from BRAC, Kusumawathi bought a measuring scale which she used to precisely measure and maintain her inventory, expenditure, and income. At present, she is recognised as a successful entrepreneur in her community, and also as a person who believes that credit discipline has made her business, and her life successful.



## CASE STUDY



Manoja's income from selling dried fish has paved the way for her to recover from her dire financial situation

### MANOJA: Fishing her way to a better life

"I plan to save money for my children's education so that they can have a better future."

Manoja, 32, lives in Gampaha district in the western part of Sri Lanka with her husband and two sons. Her husband is a waged labourer who earns on average, a monthly income of LKR 8,000 (USD 63). Manoja used to sell grams on the road side to help her family's financial situation, but the business generated very little income. Manoja and her husband could only try their best to ensure that their family had three meals a day and never went hungry.

Since her gram business was not fruitful, Manoja decided to start a new business venture, selling dry fish, which is both popular and profitable in her area. Initially, they needed financial assistance to purchase the fish stock for the business, and she looked to BRAC for support.

She took out her first loan of LKR 20,000 (USD 158) and fully invested on stocking up her new business. She was easily able to repay this loan by the income she and her husband earned from this new business. Manoja now purchases 10kg of dried fish per month for approximately LKR 9,625 (USD 76). After sorting and packaging process, Manoja sells them weekly for about LKR 14,438 (USD 114), generating a monthly profit of approximately LKR 50,000 (USD 379).

# Support Programmes

## Finance and Accounts Division

The finance and accounts division of BRAC is monitored by the country head of accounts, chief accountant, and the country accountant in Sri Lanka. The unit play a crucial role in developing budgets, managing costs, analysing cash flows and profitability while ensuring all payments to the government authorities comply with the laws of Sri Lanka.

The new position of chief accountant and also country head of accounts has been introduced to the organisational structure. The post was filled to ensure an effective and efficient implementation of financial policies and procedures. It provides an opportunity for the national staff to be appointed in higher positions of BRAC in Sri Lanka.

### New initiatives

This year a comprehensive Finance and Accounts Manual was launched in the finance and accounts convention held in Bangladesh.

### 2012 Highlights

BRAC in Sri Lanka won the second position of the 'Award of Compliance with Monthly Report Submission' at the Finance and Accounts convention on 22 November, 2012 which was held in Bangladesh and hosted by BRAC.

## Human Resources

The human resources division of BRAC in Sri Lanka is driven by the themes of transparency and equal opportunity with the fair distribution of resources. All the policies and procedures innovated by BRAC has been successfully implemented within the country's context. The division generally carry out all the recruitments, confirmations and assessments.

The human resources division coordinated with PLAN Sri Lanka to develop training teams based on the themes of gender equality, Progress out of Poverty Index (PPI), child protection, and financial competency.

### 2012 Highlights

BRAC's orientation training was successfully delivered by BRAC's learning division from Bangladesh on November 2012. A total of 104 staff members attended the training, including all area managers, regional managers, and training and communication officers.

## Risk Management

Risk management relates to how BRAC International sets its objectives, then identifies, analyses, and responds to those risks which could potentially impact the organisation's ability to realise its objectives. The concept of managing risk is an integral part of the accountability requirements at all levels in the organisation. An effective risk management system will safeguard BRAC International's interests and ensure the best use of its resources. Recognition of risk management as a central element of good corporate governance, and as a tool to assist in strategic and operational planning, has many potential benefits in the context of the changing operating environment of BRAC International's core business. The internal audit department of BRAC International provided extensive training and workshops on risk management policy to BRAC Sri Lanka staff and facilitated the preparation of risk registers in all programmes.

## Information Technology

The IT division plays a crucial role in supporting both the operational and financial staffs to carry out their activities effectively and efficiently. Through the service pack software, the IT division support the management to make effective, sensible and wise decisions. The department also ensures all the required hardware and software for the staffs are in order, so that break downs rarely hamper the progress of the operations.

## Procurement and Logistic

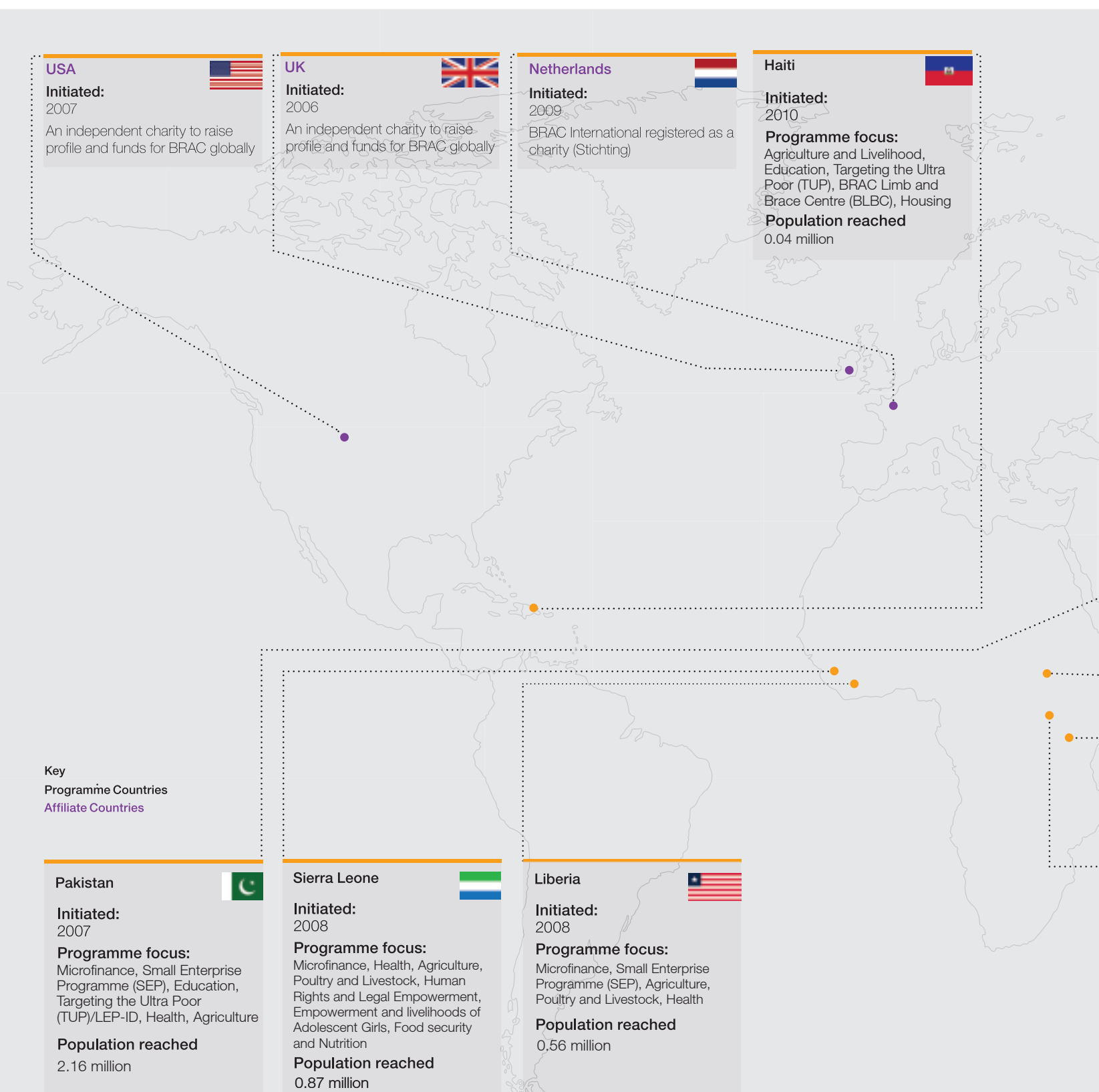
The procurement department purchases goods, equipment and related services. The department aims to operate in a timely manner with the minimum number of steps and layers, while being responsive to the end users.

The logistics division of BRAC carries out all financial and operational activities of the office in Sri Lanka. The main duties carried out by the division are to take care of the printing materials and stationeries, deliver them to the destinations on time, ensure the safety of the employees, and also protect BRAC's properties.





## BRAC across the world



**Afghanistan****Initiated:**  
2002**Programme focus:**

Microfinance, Small Enterprise Programme (SEP), Education, Adolescents Reading Centres (ARCs), Health, National Solidarity Programme (NSP), Targeting the Ultra Poor (TUP)

**Population reached**

4.72 million

**Bangladesh****Initiated:**  
1972**Programme focus:**

Microfinance, Education, Health, Nutrition and Population Ultra Poor, Integrated Development, Water Sanitation and Hygiene, Human Rights and Legal Services, Community Empowerment, Agriculture and Food Security, Disaster Management and Climate Change, Gender Justice and Diversity, Migration

**Population reached**

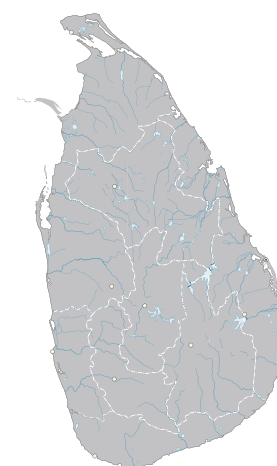
Over 120 million

**Philippines****Initiated:**  
2012**Programme focus:**

Education

**Population reached**

11,868 learners

**Sri Lanka****Initiated:**  
2005**Programme focus:**  
Microfinance**Population reached:**  
0.59 million**Uganda****Initiated:**  
2006**Programme focus:**

Microfinance, Small Enterprise Programme (SEP), Education, Health, Agriculture and Food Security, Community Connector, Poultry and Livestock, Empowerment and Livelihood for Adolescents (ELA), Karamoja Initiative

**Population reached**

4.04 million

**Tanzania****Initiated:**  
2006**Programme focus:**

Microfinance, Small Enterprise Programme (SEP), Agriculture, Poultry and Livestock, Empowerment and Livelihood for Adolescents (ELA)

**Population reached**

1.33 million

**South Sudan****Initiated:**  
2007**Programme focus:**

Microfinance, Agriculture, Education, Adolescent Girls Initiative (AGI), Health

**Population reached**

0.93 million

<b>15</b>	districts covered
<b>88</b>	branches
<b>6,250</b>	village organisations (Cumulative)
<b>63, 346</b>	borrower
<b>USD 92.5</b>	million loan disbursed (Cumulative)
<b>623</b>	staff trained (Cumulative)

# Governance

## BRAC LANKA (GUARANTEE) LIMITED (COMPANY LIMITED BY GUARANTEE)

### **DIRECTORS**

<b>Sir Fazle Hasan Abed</b>	Chairperson
<b>Dr Mahabub Hossain</b>	Director
<b>Muhammad A (Rumeel) Ali</b>	Director
<b>Faruque Ahmed</b>	Director
<b>S N Kairy</b>	Director
<b>Tanwir Rahman</b>	Director
<b>Gratian E Perera</b>	Director
<b>Lalitha Chandrani Senaratne</b>	Director

# Management

<b>Sagarika Indu</b>	Country Representative BRAC Sri Lanka
<b>Gayathri Kumudini Mustachi</b>	Country Head of Accounts
<b>Sadara Wedage Padma Subashini</b>	Regional Manager -Southern, Microfinance
<b>Juli Diana Ragel</b>	Regional Manager -Eastern Region, Microfinance
<b>Abeysingha Gunawardana Nadeeka</b>	Regional Manager -Central & North Central Region, Microfinance

## Development Partners



**BRAC USA**

**WHOLE PLANET**  
FOUNDATION®



## Operational and Financial highlights of BRAC Sri Lanka

### Net Income

BRAC Sri Lanka completed a challenging year in 2012 by registering pretax profit of USD 566,978 as against USD 564,188 in 2011. Interest income decreased by 12.23% in 2012.

### Operating Expenses

Total operating expenses for the year was USD 2,125,987 as against USD 2,365,166 in 2011 showing a decrease of 11.3%.

### Provisions for Impairment Losses

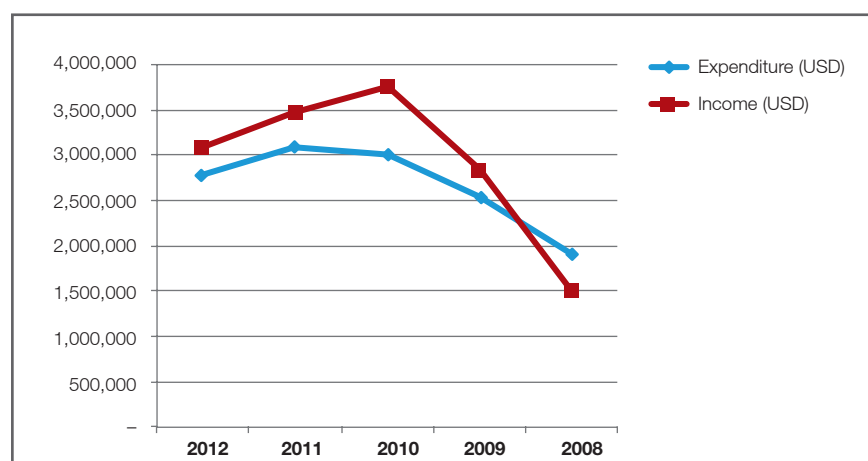
This year amount charged for impairment on loans was USD 5,750 as against 96,287 in 2011, a decrement of 94.0%. Total reserve as against impairment in 2012 was USD 227,304 as against -334,974 in 2011, representing 2.5% of Gross portfolio. Portfolio Risk (PAR>30) is 0.64% as against 1.03% in 2011

### Financial Position

In 2012, BRAC Sri Lanka total assets declined by 21.7% to USD 9,793,132 further consolidating its position in the market.

Loans and advances to customers decreased by 21.4% and is now 89.58% of total assets.

Net equity decreased to USD 149,372 down by 3.16% from USD 4,726,271 in 2011.



### Value Added Statements

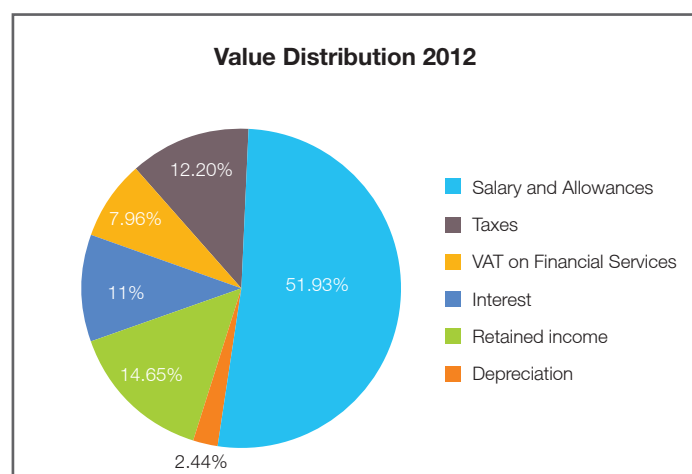
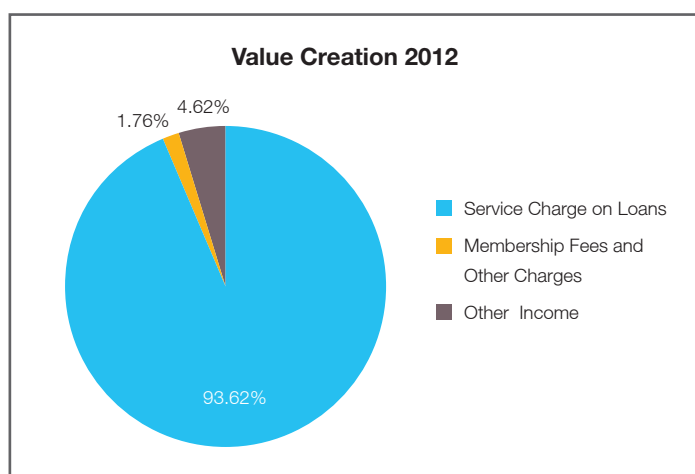
A value added statement provides a detail account of total value addition and the distribution of value created by the organization. BRAC Sri Lanka contributes positively to overall economic development by empowering the poor people (especially females) through micro-credit, employees through the payment of salaries and allowances and by assisting the local regulatory authorities through paying taxes and of course keeping in mind of organization's growth.

### Value Added

	2012		2011	
	Amount (US\$)	%	Amount (US\$)	%
<b>All Incomes</b>	<b>3,095,135</b>	<b>146.6%</b>	<b>3,466,822</b>	<b>139.8%</b>
Service charge on loans	2,897,753	137.3%	3,301,672	133.2%
Membership fees and other charges	54,332	2.6%	74,469	3.0%
Other income	143,050	6.8%	90,681	3.7%
<b>Operating Expense</b>	<b>(978,155)</b>	<b>-46.3%</b>	<b>(891,550)</b>	<b>-36.0%</b>
<b>Loan prov. (doubtful losses)</b>	<b>(5,750)</b>	<b>-0.3%</b>	<b>(96,287)</b>	<b>-3.9%</b>
<b>Total value added</b>	<b>2,111,229</b>	<b>100.0%</b>	<b>2,478,985</b>	<b>100.0%</b>

## Distribution of Value Addition

	2012		2011	
	Amount (US\$)	%	Amount (US\$)	%
<b>Employees</b>				
Salary and Allowances	1,096,265	51.93%	1,396,854	56.35%
<b>Local Authorities</b>				
Taxes	257,667	12.20%	192,881	7.78%
VAT on Financial Services	168,126	7.96%	34,241	1.38%
<b>Creditors</b>				
Interest	228,294	11%	406,940	16%
<b>Growth</b>				
Retained income	309,311	14.65%	371,307	14.98%
Depreciation	51,567	2.44%	76,762	3.10%
<b>Total value added</b>	<b>2,111,229</b>	<b>100.00%</b>	<b>2,478,985</b>	<b>100.00%</b>



## Five Year Performance Review

	2012 (USD)	2011 (USD)	2010 (USD)	2009 (USD)	2008 (USD)
<b>Income Statement</b>					
Operating Income	3,095,135	3,466,822	3,756,408	2,844,619	1,504,534
Net Profit before tax	566,978	564,188	962,078	410,682	(362,837)
<b>Financial Position</b>					
Total Asset	9,793,132	12,508,536	11,801,359	10,599,284	6,661,906
Net Equity	4,576,898	4,726,271	4,723,419	(147,214)	(454,683)
Loans to Customers (net)	8,772,542	11,161,475	9,071,573	7,499,964	5,569,025
Cash at Bank	646,566	877,211	2,056,095	2,482,813	659,400
<b>Returns and ratio</b>					
Return on Asset	5.08%	4.64%	8.59%	4.76%	-6.31%
Cost to Income	90.01%	89.29%	79.80%	89.19%	126.67%
<b>Operational Statistics</b>					
Total borrowers	63,346	74,069	65,607	63,977	54,318
Cost per Loan	30	36	35	28	30
PAR>30	0.64%	1.03%	0.74%	2.41%	3.72%

## AUDITED FINANCIAL STATEMENTS OF BRAC LANKA (GUARANTEE) LIMITED

For the year ended 31 December 2012



**KPMG**

(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
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**INDEPENDENT AUDITORS' REPORT****TO THE MEMBERS OF BRAC LANKA (GUARANTEE) LIMITED****Report on the Financial Statements**

We have audited the accompanying financial statements of BRAC Lanka (Guarantee) Limited ("the Company"), which comprise the statement of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 02 to 27 of the financial statements.

The corresponding figures presented are based on the financial statements of the Company as at and for the year ended December 31, 2011 which are audited by another auditor, whose report dated April 19, 2012 expressed an unqualified opinion on those statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Scope of Audit and Basis of Opinion**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

**Report on Other Legal and Regulatory Requirements**

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

**CHARTERED ACCOUNTANTS**

Colombo  
25 March 2013

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perea FCA

Ms. M. P. Perera FCA  
F.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA

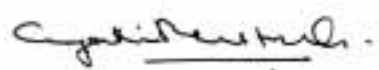
**Principals** - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

**BRAC LANKA (GUARANTEE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2012

		2012	2011	1 January 2011
	Note	Rs.	Restated Rs.	Restated Rs.
<b>Assets</b>				
<b>Cash and cash equivalents</b>	<b>10</b>	8,514,288	25,579,312	175,942,975
Short term deposits	<b>11</b>	73,554,301	73,554,301	123,554,301
Loans and advances to customers	<b>12</b>	1,113,498,749	1,261,358,262	986,872,622
Other assets	<b>13</b>	3,484,210	3,964,069	10,543,667
Property, plant and equipment	<b>14</b>	41,834,898	47,130,532	46,657,379
Deferred taxation	<b>15</b>	2,155,819	2,003,165	878,988
<b>Total assets</b>		<b>1,243,042,265</b>	<b>1,413,589,641</b>	<b>1,344,449,932</b>
<b>Capital Fund and liabilities</b>				
<b>Liabilities</b>				
Loan security fund	<b>16</b>	-	254,085,289	68,328,588
Related party payables	<b>17</b>	321,309,974	272,461,689	241,032,591
Borrowings	<b>18</b>	239,232,837	294,448,787	292,248,213
Other liabilities	<b>19</b>	27,170,114	24,741,626	221,558,769
Employee benefits	<b>20</b>	16,402,376	10,941,206	7,017,390
Current tax liability	<b>21</b>	32,731,945	22,795,207	21,501,399
Donor funds	<b>22</b>	25,249,337	-	514,369
<b>Total liabilities</b>		<b>662,096,583</b>	<b>879,473,804</b>	<b>852,201,319</b>
<b>Capital fund</b>				
BRAC contribution	<b>23</b>	460,599,963	460,599,963	460,599,963
Retained earnings		120,345,719	73,515,874	31,648,650
<b>Total capital fund</b>		<b>580,945,682</b>	<b>534,115,837</b>	<b>492,248,613</b>
<b>Total liabilities and capital fund</b>		<b>1,243,042,265</b>	<b>1,413,589,641</b>	<b>1,344,449,932</b>

The financial statements are to be read in conjunction with the related notes, which form as an integral part of these financial statements of the Company.

These financial statements are prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Country Head of Accounts  
BRAC Lanka (Guarantee) Limited

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board;



Director



Director

25 March 2013  
Colombo

## BRAC LANKA (GUARANTEE) LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		2012	2011
			Restated
	Note	Rs.	Rs.
Service charge on loans	2	367,811,781	373,121,918
Interest expense	2	(28,977,304)	(45,988,258)
<b>Net income from service charge</b>		<b>338,834,477</b>	<b>327,133,660</b>
Membership fees and other charges	3	6,896,305	8,415,743
Other income	4	18,157,362	9,733,518
Grant income	22.1	-	514,369
		<b>25,053,667</b>	<b>18,663,630</b>
<b>Total operating income</b>		<b>363,888,144</b>	<b>345,797,290</b>
Impairment losses on loans and advances to customers	5	729,858	10,881,417
Staff costs	6	139,148,854	157,858,525
Other operating expenses	7	124,157,277	100,754,040
Depreciation		6,545,401	8,674,888
VAT on Financial Services		21,340,174	3,869,545
		<b>291,921,564</b>	<b>282,038,415</b>
<b>Profit before tax</b>	<b>8</b>	<b>71,966,580</b>	<b>63,758,875</b>
Income tax expense	9	(32,705,716)	(21,797,456)
<b>Net profit for the year</b>		<b>39,260,863</b>	<b>41,961,419</b>
<b>Other comprehensive income</b>			
Actuarial gain/(loss) on employee benefit		23,019	(94,195)
<b>Total comprehensive income</b>		<b>39,283,882</b>	<b>41,867,224</b>

The financial statements are to be read in conjunction with the related notes, which form as an integral part of these financial statements of the Company.

**BRAC LANKA (GUARANTEE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2012

	<b>BRAC Contribution Rs.</b>	<b>Retained Earnings Rs.</b>	<b>Total Capital Fund Rs.</b>
Balance as at 31 December 2010	460,599,963	33,306,044	493,906,007
Prior period adjustment (Note 1)	-	(1,657,394)	(1,657,394)
<b>Balance as at 1 January 2011 (Restated)</b>	<b>460,599,963</b>	<b>31,648,650</b>	<b>492,248,613</b>
Total comprehensive income for the period	-	41,867,224	41,867,224
<b>Balance as at 31 December 2011 (Restated)</b>	<b>460,599,963</b>	<b>73,515,874</b>	<b>534,115,837</b>
Balance as at 1 January 2012	460,599,963	73,515,874	534,115,837
Transferred from BRAC Sri Lanka	-	7,545,964	7,545,964
Total comprehensive income for the period	-	39,283,882	39,283,882
<b>Balance as at 31 December 2012</b>	<b>460,599,963</b>	<b>120,345,719</b>	<b>580,945,682</b>

**Note 1 : Prior year adjustment**

The Company had not recognised defined benefit obligation and deferred tax. Further it had erroneously calculated the amortization of donor fund investment on fixed assets. Those errors have now been corrected and impact on this financial statements are given below.

Overstatement of profit due to not recognising retirement benefit obligation	(7,017,390)
Understatement of profit due to not recognising deferred tax asset	878,988
Understatement of profit due to an error on amortization of donor fund received for fixed assets	4,481,008
	<b>(1,657,394)</b>

The financial statements are to be read in conjunction with the related notes, which form as an integral part of these financial statements of the Company.



## BRAC LANKA (GUARANTEE) LIMITED

## CASHFLOW STATEMENT

For the year ended 31 December 2012

	Note	2012 Rs.	2011 Rs.
<b>Profit before tax</b>		71,966,580	63,758,875
Adjustments for:			
Depreciation		6,545,401	8,674,888
Loan loss provision		(9,308,890)	10,881,417
Gratuity provision		6,651,664	3,970,141
Deferred income		-	(514,369)
<b>Cash flow before changes in working capital</b>		<b>75,854,755</b>	<b>86,770,952</b>
<b>Changes in working capital</b>			
Decrease/(increase) of other assets		479,859	6,579,598
Increase/(decrease) of related parties payable		48,848,285	31,429,098
Increase/(decrease) of other liabilities		2,428,488	(196,817,142)
(Increase)/decrease interest receivable		(1,204,683)	(2,262,933)
Received from/ Transfer to BRAC Sri Lanka		(4,045,864)	-
(Repayment)/collection of loan security fund		(254,085,289)	185,756,701
		<b>(131,724,449)</b>	<b>111,456,274</b>
Loan disbursements		(2,324,853,000)	(2,537,819,000)
Loan collection		2,495,187,286	2,254,714,876
Gratuity paid		(1,167,475)	(140,520)
Tax paid		(23,291,005)	(21,627,825)
<b>Net cash flow from Operating Activities</b>		<b>14,151,357</b>	<b>(193,416,195)</b>
<b>Cash flow from Investing Activities</b>			
Acquisition of fixed assets		(1,249,767)	(9,148,041)
Withdrawal of fixed deposits		-	50,000,000
<b>Net cash flow from Investing Activities</b>		<b>(1,249,767)</b>	<b>40,851,959</b>
<b>Cash flow from Financing Activities</b>			
Donor fund received during the year		25,249,337	-
(Repayment of borrowing)/ borrowings during the year		(55,215,950)	2,200,574
<b>Net cash flow from Financing Activities</b>		<b>(29,966,613)</b>	<b>2,200,574</b>
<b>Net decrease in cash in hand and at bank</b>		<b>(17,065,024)</b>	<b>(150,363,663)</b>
Cash in hand and at bank at beginning of the year		25,579,312	175,942,975
<b>Cash in hand and at bank at end of the year</b>	10	<b>8,514,288</b>	<b>25,579,312</b>

The financial statements are to be read in conjunction with the related notes, which form as an integral part of these financial statements of the Company.

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 December 2012**

### **1. Accounting policies**

#### **1.1 Reporting entity**

BRAC Lanka (Guarantee) Limited is a Company limited by Guarantee incorporated and domiciled in Sri Lanka. In the event that the Company is wound up, the liability of members is limited to Rs. 100/- per member. The Company has re-registered under the new Companies Act No. 07 of 2007. The registered office of the company is situated in the District of Colombo.

#### **Principal Activities**

The principal activity of the Company is Micro Finance Activities to assist in poverty alleviation

#### **1.2 Basis of preparation**

##### **(a) Statement of compliance**

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS). These are the Company's first financial statements prepared in accordance with SLFRS and First-time Adoption of Sri Lanka Accounting Standards (SLFRS 1) has been applied.

An explanation of how the transition to the new SLASs has affected the reported financial position, financial performance of the company is provided in note 28.

The Financial Statements were authorised for issue by the Management on 25 March 2013.

##### **(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- loans and receivables are measured at amortized cost
- employee benefit is measured at gratuity formula method
- impairment on Loans and advances is measured using collective impairment model

##### **(c) Functional and presentation currency**

These financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency. The financial statements include figures, which have been translated from Sri Lankan Rupee (LKR) to United States Dollars (US \$) at the year-end rate of US\$ 1: 126.93 Local currency. These figures are for memorandum purposes only and do not form part of the audited financial statements.

##### **(d) Use of estimates and judgments**

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgment about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only the financial year or in the period of the revision and future periods if the revision affects both current and future financial years.

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment within the next financial year are as follows:

##### **i. Deferred tax**

Deferred Taxation is provided based on the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. Significant management judgments are required to determine the amount of deferred tax assets/ liabilities that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

##### **ii. Provision for employee defined benefit obligation**

The provision for defined benefit obligations and the related charge for the year is determined using the gratuity formula method. The measurement involves making assumptions about the discount rate, salary increment rate and staff turnover factor.

##### **iii. Impairment**

Company assesses at each year end whether there is objective evidence that an asset or portfolio of asset is impaired. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use the

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### For the year ended 31 December 2012

estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessment of the rate of money and risk specific to the assets.

#### 1.3 Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative amounts in the financial statements have been reclassified to conform to the current year's presentation.

##### (a) Foreign currency

###### i. Foreign currency transactions

Transactions in foreign currencies are translated in to reporting currency at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at rate of exchange prevailing at that date. Foreign currency gain or loss on monetary items exchange differences arising on translation are recognized in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction

##### (b) Financial instruments

###### i. Initial Recognition and Subsequent Measurement

Financial instruments are classified in the following categories – financial instruments at fair value through profit or loss, loans and advances, financial investments held-to-maturity and financial investments available-for-sale. Management determines the classification of financial instruments at initial recognition.

###### Financial Instruments at Fair Value through Profit or Loss

Financial assets classified in this category consist of financial assets held-for-trading. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing it in the near term.

Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses from changes in fair value and dividend income are included directly in "Net gains and losses on financial instruments" in the statement of comprehensive income. Interest income is recognised as "Interest income" in the statement of comprehensive income. Regular way purchases and sales of financial assets held-for-trading are recognised on settlement date.

The company does not have any financial instruments designated as fair value through profit or loss.

###### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreements, loans & advances and bills of exchange. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Service charge on loans" in the statement of comprehensive income. Impairment losses on loans and advances are recognised in the statement of comprehensive income as "Impairment losses on loans and advances to customers". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

###### Financial Investments Held-to-Maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments that management has the intention and ability to hold to maturity. These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest on investments held-to-maturity is included in "Interest income" in the statement of comprehensive income. Impairment losses, if any, are recognised in the statement of comprehensive income as "Impairment on other assets".

###### Financial Investments Available-for-Sale

Financial investments available-for-sale are non-derivative financial assets that are designated as available-for-sale and are not categorised into any of the other categories above. Financial investments available-for-sale include financial assets that are intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in market conditions.

These financial assets are initially recognised at fair value including direct and incremental transaction costs, and subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement. If an investment available-for-sale is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. Likewise, upon disposal of investments available-for-sale, the cumulative fair value gain or

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### For the year ended 31 December 2012

loss recognised in the statement of comprehensive income is also transferred to the income statement. Interest income on financial investments available-for-sale is included in "Interest income" and dividend income is recognised in "Net gains and losses on financial instruments" in the income statement. Regular way purchases and sales of financial investments available-for-sale are recognised at settlement date.

Investments in unquoted equity instruments which are classified as available-for-sale and whose fair value cannot be reliably measured are measured at cost. These investments are assessed for impairment at each reporting date.

The company does not have any financial instruments designated as available-for-sale.

#### Financial Liabilities

All the financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and other payables.

#### ii. Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive further cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they are redeemed or extinguished.

Collateral furnished by the Company under repurchase agreements are not derecognised as the Company retain substantially all the risks and rewards on the basis of the pre-determined repurchase price, and hence the criteria for derecognition are not met.

#### iii. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

#### iv. Identification and measurement of impairment

##### Loans and advances

##### Collective allowance for impairment

Collective assessment of loans of the Company which are not subject to this transitional arrangement is computed via grouping of these loans on the basis of similar credit risk characteristics. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the statement of comprehensive income.

### 1.4 Property, plant and equipment

#### (a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gains and losses on disposal of an item of property, plant and equipment is recognised in profit or loss.

#### (a) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company.

#### (b) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component.



## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### For the year ended 31 December 2012

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

	<b>Years</b>
Furniture and fixtures	10
Motor vehicles	5
Bicycles	5
Motor Cycles	5
Equipment	6 2/3
Computer	5

All assets are depreciated from the month of the asset is available for use up to the month of disposal.

#### 1.5 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### 1.6 Employee benefits

##### (a) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### (b) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss when incurred.

##### (c) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 – Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability recognised in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet date.

The Company measures the present value of retirement benefits of gratuity using the formula method as recommended by LKAS 19 – Employee Benefits.

The liability is not externally funded nor actuarially valued.

#### Loans and Borrowings

Loans and Borrowings are recognized as the proceeds are received, net of transaction costs incurred. The carrying values of these instruments approximate their fair values due to their short term maturity.

All borrowing costs are recognized as an expense in the statement of income and expenditure in the period in which they are incurred.

#### 1.7 Contingent liabilities and contingent assets

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2012

#### 1.8 Donor grants

All donor grants received are initially recognized as deferred income at fair value and recorded as liabilities in the Donor Funds.

Grants utilized to reimburse program related expenditure, the amounts are recognized as Grant Income for the period.

Donor grants received in kind, through the provision of gifts and /or services, are recorded at fair value (excluding situations when BRAC Lanka (Guarantee) Limited may receive emergency supplies for onward distribution in the event of a disaster which are not recorded as grants).

Grant income is classified as temporarily restricted or unrestricted depending upon the existence of donor-imposed restrictions. For completed or phased out projects and programs, any unutilized amounts are dealt with in accordance with consequent donor and management agreements.

For ongoing projects and programs, any expenditures yet to be funded but for which funding has been agreed at the end of the reporting period is recognized as Grants Receivable.

#### Grant income

A Substantial portion of BRAC Lanka (Guarantee) Limited's donor grants are for the funding of Not-for-profit projects and programs, and for these grants, income recognized is matched to the extent of actual expenditures incurred on projects and programs for the period.

For donor grants restricted to funding procurement fixed assets, grant income is recognized as the amount equivalent to depreciation expenses charged on the fixed asset.

#### 1.9 Service charge on loans and interest expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

#### Membership fee and transaction cost

Membership fee and transaction cost that are immaterial to the transaction are not included in the measurement of the effective interest rate, but are taken to the statement of comprehensive income on cash basis.

When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

#### 1.10 Other income

Other income comprises of pass book sales and foreign exchange gain and they have been recognised on accrual basis. Non operational income such as gain on disposal of property, plant and equipment is recognized on cash basis.

#### 1.11 Other operating expenses

All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency have been charged to revenue in arriving at the Company's profit for the year.

#### 1.12 Income tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

#### 1.13 Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### For the year ended 31 December 2012

##### 1.14 Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

##### 1.15 Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for economic depreciation and emoluments of employees computed on the prescribed rate.

##### 1.16 Events occurring after the Balance Sheet date

All material post balance sheet events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

##### 1.17 Cash flow statement

The cash flow statement has been prepared by using the "Indirect Method" of preparing of cash flow statement in accordance with the LKAS 7, Cash Flow Statements.

Cash and Cash equivalents comprise cash in hand balances and deposits with banks.

##### 1.18 Comparative information

The comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

	2012	2011
	Rs.	Rs.
<b>2 Net interest income</b>		
<b>Service charge on loans</b>		
Group Loans (Microfinance)	367,811,781	373,121,918
	<b>367,811,781</b>	<b>373,121,918</b>
<b>Interest expense</b>		
<b>Lender</b>		
1. SMAGL	13,453,204	13,993,916
2. People's Bank	11,061	126,717
3. Etimos	15,513,039	19,269,806
4. Deutsche Bank	-	-
5. Interest on VO Members Savings	-	12,597,819
	<b>28,977,304</b>	<b>45,988,258</b>
	<b>338,834,477</b>	<b>327,133,660</b>
<b>3 Membership fees and other charges</b>		
Membership fee	6,896,305	8,415,743
	<b>6,896,305</b>	<b>8,415,743</b>
<b>4 Other income</b>		
Interest on fixed deposits	-	2,715,812
Other income	18,157,362	7,017,706
	<b>18,157,362</b>	<b>9,733,518</b>
<b>5 Impairment losses on loans and advances</b>		
Provision for / (reversal of) impairment losses	(9,308,890)	10,881,417
Bad debt written off	10,038,748	-
	<b>729,858</b>	<b>10,881,417</b>
<b>6 Staff cost</b>		
Salaries and bonus	139,148,854	157,858,525
	<b>139,148,854</b>	<b>157,858,525</b>

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2012

	2012	2011
	Rs.	Rs.
<b>6.1 Defined contribution plans</b>		
Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.		
Employees' Provident Fund		
Employers' contribution	6,808,532	7,387,358
Employees' contribution	4,539,021	4,924,906
Employees' Trust Fund	1,702,133	1,855,365
<b>7 Other operating expenses</b>		
Staff training and development	1,673,665	1,931,676
Travel and transportation	12,739,924	14,592,791
Maintenance and general expenses	32,744,949	29,722,209
Printing and office stationery	6,440,656	7,890,950
Occupancy expenses (7.1)	21,280,072	20,086,968
Group member death benefits	2,420,000	2,780,000
Audit fees	1,444,800	403,200
Program supplies	-	184,160
HO logistics and management expenses	22,257,391	23,162,086
Exchange loss	23,155,820	-
	<b>124,157,277</b>	<b>100,754,040</b>
<b>7.1 Occupancy expenses</b>		
Rent	15,306,065	14,663,560
Utilities	5,974,007	5,423,408
	<b>21,280,072</b>	<b>20,086,968</b>
<b>8 Profit before tax</b>		
Profit before Tax is stated after charging all the expenses including the following:		
Auditor's remuneration		
Statutory audit	840,000	403,200
Audit related services	560,000	-
Depreciation and ammortisation	6,545,401	8,674,888
Personnel costs (Note 6)	139,148,854	157,858,525
Professional and legal expenses	116,230	-

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

	2012	2011
	Rs.	Rs.
<b>9 Taxation</b>		
<b>Income tax expense</b>		
<b>Current tax expense</b>		
Current tax charge for the year	32,731,945	22,921,633
Under provision for previous year	126,426	-
	<b>32,858,371</b>	<b>22,921,633</b>
<b>Deferred tax expense</b>		
Origination of deferred tax liabilities (Note 15.1)	(1,299,500)	(535,883)
Reversal / origination of deferred tax assets (Note 15.2)	1,452,155	1,660,060
	<b>(152,655)</b>	<b>1,124,177</b>
	<b>32,705,716</b>	<b>21,797,456</b>

**9.1** In terms of provision of Inland Revenue Act No.10 of 2006 and amendments thereto, the Company is liable for income tax at 28%.

**9.2 Reconciliation of effective tax rate**

Profit for the year	39,283,882	41,867,224
Adjustments in other comprehensive income	(23,019)	94,195
Total tax expense	32,705,716	21,797,456
<b>Profit excluding tax</b>	71,966,580	63,758,875
Tax using the Company's domestic tax rate	20,150,642	17,852,485
Disallowable income	(3,944,231)	-
Aggregate expenses disallowed for taxation	20,084,378	7,972,841
Aggregate deductible expenses for taxation	(3,558,845)	(2,903,693)
	<b>32,731,945</b>	<b>22,921,633</b>

**9.3** The tax charge on the company's profit before tax differs from the theoretical amount using the basic tax rate as follows.

Operating profit/surplus and other income before taxation	71,966,580	71,074,700
Tax calculated at 28%	20,150,642	17,852,485
Tax effect of non deductible expense and non taxable income	12,581,303	5,069,148
Tax charge for the year	<b>32,731,945</b>	<b>22,921,633</b>



# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**As at 31 December 2012**

	2012	2011	1 January 2011
	Rs.	Restated Rs.	Restated Rs.
<b>10 Cash and cash equivalents</b>			
Cash in hand	98,430	205,996	2,221,782
<b>Cash at bank</b>			
Standard Chartered Bank	5,387,464	15,644,728	133,774,655
Hatton National Bank PLC	25,755	886,058	6,995,737
Commercial Bank of Ceylon PLC	245,539	276,955	6,219,451
Peoples Bank	2,421,720	7,971,287	18,389,325
Bank of Ceylon	63,744	505,631	3,612,027
Seylan Bank PLC	180,155	55,888	3,837,541
Sampath Bank PLC	91,481	32,769	892,457
	8,415,858	25,373,316	173,721,193
<b>Cash in hand and at bank</b>	<b>8,514,288</b>	<b>25,579,312</b>	<b>175,942,975</b>
The bank balances amounting to Rs. 434,868/- of the company which are reflected in the financial statements are still in the name of BRAC Sri Lanka, which was merged with the company during the year.			
<b>11 Short term deposits at amortized cost</b>			
Short term investments	-	-	50,000,000
Fixed deposits	73,554,301	73,554,301	73,554,301
	<b>73,554,301</b>	<b>73,554,301</b>	<b>123,554,301</b>
Fixed deposits amounting to Rs. 14,781,072/- reflected in these financial statements are in the name of BRAC			
<b>12 Loans and advances to customers</b>			
Group loans	1,138,440,672	1,296,508,615	1,013,404,491
Interest receivable	4,440,252	2,705,131	784,446
Less: Write off	(530,438)	-	(342,248)
Impairment loss on loan advance	(28,851,737)	(37,855,484)	(26,974,067)
	<b>1,113,498,749</b>	<b>1,261,358,262</b>	<b>986,872,622</b>

Advances to customers are carried at amortized cost. It is estimated that the fair values of advances to customers are approximately the same as the carrying values. All advances to customers are unsecured.

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**As at 31 December 2012**

	<b>2012</b>	<b>2011</b>	<b>1 January 2011</b>
	<b>Rs.</b>	<b>Restated Rs.</b>	<b>Restated Rs.</b>
<b>12.1</b>	The movement on the loan accounts is analyzed as shown below;		
At 1 January	1,296,508,615	1,013,404,491	807,087,001
Transferred from BRAC Sri Lanka	12,266,343	-	-
Loans disbursed	2,324,853,000	2,537,819,000	1,855,782,000
Less: Loans repayments	(2,485,678,976)	(2,254,714,876)	(1,638,551,521)
Less: Write off of loans and advances	(9,508,310)	-	(10,912,989)
<b>Gross advances to customers</b>	<b>1,138,440,672</b>	<b>1,296,508,615</b>	<b>1,013,404,491</b>
<b>Interest receivable</b>	<b>4,428,643</b>	<b>2,705,131</b>	<b>784,446</b>
Transferred from BRAC Sri Lanka	11,609	-	-
Less: Write off of interest receivable	(530,438)	-	(342,248)
Collective impairment loss on loans advance (Note - 12.2)	(28,851,737)	(37,855,484)	(26,974,067)
<b>Net advances to customers</b>	<b>1,113,498,749</b>	<b>1,261,358,262</b>	<b>986,872,622</b>
<b>12.2</b>	The movement on the collective impairment on loans account is shown below;		
At 1 January	37,855,484	26,974,067	16,647,303
Transferred from BRAC Sri Lanka	305,143	-	-
Provision for / (reversal of) impairment losses	(9,308,890)	10,881,417	10,326,764
At 31 December 2012	<b>28,851,737</b>	<b>37,855,484</b>	<b>26,974,067</b>
<b>12.3</b>	Analysis of aging of loans:		
	<b>Principal outstanding</b>	<b>Principal outstanding</b>	<b>Principal outstanding</b>
Current	1,124,764,111	1,276,305,907	1,001,331,836
1-30 days	6,347,784	6,813,445	4,307,500
31-180 days	1,547,891	1,430,843	2,456,541
181-365 days	205,593	1,023,580	5,159,644
366 days and above past due	5,575,293	10,934,840	148,970
	<b>1,138,440,672</b>	<b>1,296,508,615</b>	<b>1,013,404,491</b>
<b>13 Other assets</b>	<b>2012</b>	<b>2011</b>	<b>1 January 2011</b>
	<b>Rs.</b>	<b>Restated Rs.</b>	<b>Restated Rs.</b>
Advances and prepayments	3,461,210	3,941,619	3,144,718
Receivable from related parties	-	-	5,946,455
Advances to staff	-	22,450	-
Refundable deposit	23,000	-	-
Field receivable	-	-	1,452,494
	<b>3,484,210</b>	<b>3,964,069</b>	<b>10,543,667</b>

BRAC LANKA (GUARANTEE) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

14 Property, plant and equipment

	Land	Furniture & Fixtures	Equipments	Vehicle	Bicycle	Motor Cycles	Total	Total	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>									
As at 1 January	15,000,000	13,442,233	13,788,312	14,800,700	2,512,836	15,235,683	74,779,764	65,631,723	49,184,618
Additions	-	338,489	678,246	-	-	323,032	1,339,767	10,226,482	16,447,105
Disposal	-	-	-	-	-	(90,000)	(90,000)	(1,078,441)	-
<b>As at 31 December</b>	<b>15,000,000</b>	<b>13,780,722</b>	<b>14,466,558</b>	<b>14,800,700</b>	<b>2,512,836</b>	<b>15,468,715</b>	<b>76,029,531</b>	<b>74,779,764</b>	<b>65,631,723</b>
<b>Depreciation</b>									
As at 1 January	-	4,523,468	5,706,286	6,653,516	1,984,875	8,781,087	27,649,232	18,974,344	13,019,643
Charge for the year	-	826,843	1,294,186	2,272,600	301,540	1,850,232	6,545,401	8,674,888	5,954,701
<b>As at 31 December</b>	<b>-</b>	<b>5,350,311</b>	<b>7,000,472</b>	<b>8,926,116</b>	<b>2,286,415</b>	<b>10,631,319</b>	<b>34,194,633</b>	<b>27,649,232</b>	<b>18,974,344</b>
<b>As at 31 December 2012</b>	<b>15,000,000</b>	<b>8,430,411</b>	<b>7,466,086</b>	<b>5,874,584</b>	<b>226,421</b>	<b>4,837,396</b>	<b>41,834,898</b>		
As at 31 December 2011	15,000,000	8,918,765	8,082,026	8,147,184	527,961	6,454,596		47,130,532	
As at 1 January 2011	15,000,000	8,066,138	6,572,534	10,419,784	747,939	5,850,984			46,657,379

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

	2012	2011	1 January 2011
	Rs.	Restated Rs.	Restated Rs.
<b>15 Deferred taxation</b>			
Deferred tax liabilities (Note 15.1)	(2,359,873)	(1,060,373)	(524,490)
Deferred tax assets (Note 15.2)	4,515,692	3,063,538	1,403,478
	<b>2,155,819</b>	<b>2,003,165</b>	<b>878,988</b>

### 15.1 Deferred tax liabilities

The movements on the deferred tax account is as follows:

Balance at the beginning of the year	(1,060,373)	(524,490)	-
Origination during the year	(1,299,500)	(535,883)	(524,490)
Balance at the end of the year	<b>(2,359,873)</b>	<b>(1,060,373)</b>	<b>(524,490)</b>

### 15.2 Deferred tax assets

Balance at the beginning of the year	3,063,538	1,403,478	-
(Reversal) / origination during the year	1,452,155	1,660,060	1,403,478
Balance at the end of the year	<b>4,515,692</b>	<b>3,063,538</b>	<b>1,403,478</b>

### 15.3 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 31/12/2012 Rs.	Liabilities 31/12/2012 Rs.	Net 31/12/2012 Rs.
Property, plant and equipment	-	(2,359,873)	(2,359,873)
Employee benefits	4,515,692	-	4,515,692
<b>Net deferred tax assets/(liabilities)</b>	<b>4,515,692</b>	<b>(2,359,873)</b>	<b>2,155,819</b>

### 16 Loan security fund

Opening balance	254,085,289	68,328,588	-
Opening balance receivable from Sri Lanka	2,318,020	-	-
Received during the year	-	253,781,900	92,789,100
Paid off /Adjusted during the year	(256,403,309)	(68,025,199)	(24,460,512)
Closing balance	<b>-</b>	<b>254,085,289</b>	<b>68,328,588</b>

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**As at 31 December 2012**

	2012	2011	1 January 2011
	Rs.	Restated Rs.	Restated Rs.
<b>17 Related party payables</b>			
Payable to Stitching BRAC International	44,963,580	23,162,086	-
Payable to BRAC Bangladesh (Note 17.1)	276,346,394	249,299,603	241,032,591
	<b>321,309,974</b>	<b>272,461,689</b>	<b>241,032,591</b>

**17.1** The company had not accounted for certain related party payables amounting to Rs. 73,554,301/- in the previous years. This has now been corrected retrospectively.

Related party payables relate to amounts owing to BRAC Associates for the settlement of staff costs and operating expenditures on behalf of BRAC Lanka (Guarantee) Limited, HO logistics and other fees payable.

### **18 Borrowings**

Stromme Micro Finance Asia (Guarantee) Ltd (Note-18.1)	116,666,642	185,312,483	105,029,168
Consorzio Etimos s.c. (Note-18.2)	122,566,195	108,865,143	182,554,292
Peoples Bank	-	271,161	4,039,905
KIVA	-	-	624,848
	<b>239,232,837</b>	<b>294,448,787</b>	<b>292,248,213</b>

**18.1** BRAC Lanka Guarantee Ltd entered into various loan agreements with Stromme Micro Finance Asia (Guarantee) Ltd to finance its microfinance activities. On 1st January 2010 BRAC Bangladesh provided a guarantee on which all the loans became part of a credit line worth 200 million LKR. The current agreements under that package are:

- a) SMAGL/RLS/10/105-04 dated 21st September 2010
- b) SMAGL/RLS/10/105-05 dated 1st November 2010
- c) SMAGL/RLS/10/105-6 dated 1st December 2010
- d) SMAGL/RLS/11/105-01 dated 1st April 2011
- e) SMAGL/RLS/11/105-02 dated 1st May 2011
- f) SMAGL/RLS/11/105-03 dated 1st June 2011
- g) SMAGL/RLS/11/105-04 1st September 2011
- h) SMAGL/RLS/11/105-05 dated 1st November 2011
- i) SMAGL/RLS/11/105-06 dated 1st December 2011
- h) SMAGL/RLS/12/105-01 dated 26th November 2012
- h) SMAGL/RLS/12/105-02 dated 14th December 2012

The loan carries Interest of 9% -11 % p.a. computed on declining balance method. Each individual payment of loan funds by Stromee to BRAC constitutes a separate loan and each loan is for thirty months (payable in twenty four installments) with a grace period of six months.

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**As at 31 December 2012**

	<b>2012</b>	<b>2011</b>	<b>1 January 2011</b>
	<b>Rs.</b>	<b>Restated Rs.</b>	<b>Restated Rs.</b>
<b>18.2</b>	BRAC Lanka (Guarantee) Limited also avails two loans from Consorzio Etimos s.c. Each loan was worth LKR 100 million each and is repayable within three years.		
<b>19 Other liabilities</b>			
Accrual for expenses	7,799,446	13,376,410	13,494,183
VO Members Saving Deposits (19.1)	-	10,992,443	208,064,586
Interest Payable	-	372,773	-
Other payable	19,370,668	-	-
	<b>27,170,114</b>	<b>24,741,626</b>	<b>221,558,769</b>
<b>19.1 VO Members Saving Deposits</b>			
Opening balance	10,992,443	208,064,586	179,591,326
Add: Deposits during the year	-	-	63,073,506
	10,992,443	208,064,586	242,664,832
Less: Repayment during the year	(10,992,443)	(197,072,143)	(34,600,246)
	<b>-</b>	<b>10,992,443</b>	<b>208,064,586</b>
<b>20 Employee benefits</b>			
<b>20.1 Defined benefit plan - Gratuity</b>			
At the beginning of the year	10,941,206	7,017,390	-
Current service cost	5,610,371	3,214,006	2,169,059
Interest cost	1,041,293	756,135	-
Actuarial loss / (gain)	(23,019)	94,195	4,893,336
Payments made during the year	(1,167,475)	(140,520)	(45,005)
At the end of the year	<b>16,402,376</b>	<b>10,941,206</b>	<b>7,017,390</b>

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation. The following key assumptions were made in arriving at the retirement obligation as at 31st December 2012.

Expected salary increment rate	16%	16%	16%
Discount rate	11%	11%	11%



# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

	2012	2011	1 January 2011
	Rs.	Restated Rs.	Restated Rs.
<b>21 Current tax liability</b>			
At the beginning of the year	22,795,207	21,501,399	7,103,122
Tax payable from Sri Lanka	369,372	-	-
Provision for the year	32,731,945	22,921,633	21,501,399
Under / (over) provision in respect of prior years	126,426	-	-
Payments made during the year	(23,291,005)	(21,627,825)	(7,103,122)
At the end of the year	<b>32,731,945</b>	<b>22,795,207</b>	<b>21,501,399</b>
<b>22 Donor funds</b>			
Donor funds investment in fixed assets (Note-22.1)	-	-	514,369
Donor Fund Investment on Loan (Note-22.2)	25,249,337	-	-
	<b>25,249,337</b>	<b>-</b>	<b>514,369</b>
<b>22.1 Donor funds investment in fixed assets- Deferred income</b>			
Opening balance	-	514,369	2,523,097
Transferred to comprehensive income	-	(514,369)	(2,008,729)
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>514,369</b>
<b>22.2</b>	BRAC Lanka Guarantee was awarded a grant amounting to USD 500,000 by BRAC USA for granting microloans in the Gampaha district of Western Province. Out of this Brac Lanka received only USD 200,000.		
<b>23 BRAC contribution</b>			
The fund amounting to LKR 460,599,963/= relates to various contributions made towards the establishment of BRAC Lanka (Guarantee) Limited.			
<b>24 Capital commitments</b>			
There were no capital commitments at the year end date.			
<b>25 Contingent liabilities</b>			
There were no contingent liabilities at the year end date.			

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

#### 26 Related parties

##### 26.1 Transactions with related party

Related party payables relate to amounts owing to BRAC Associates for the settlement of staff costs and operating expenditures on behalf of BRAC Lanka (Guarantee) Limited, HO logistics and other fees payable.

The aggregate value of transactions relating to related parties is as follows:

Name of the related party	Nature of the transactions	Transaction amount 2012	Balance as at 31 December 2012	Transaction amount 2011	Balance as at 31 December 2011	Transaction amount 2010	Balance as at 31 December 2010
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Stitching BRAC International Ltd	10% of other operating expenses are borne on behalf of BRAC Lanka (Guarantee) Ltd	21,801,494	44,963,580	23,162,086	23,162,086	-	-
BRAC Bangladesh	Expatriate's salary expenses are borne on behalf of BRAC Lanka (Guarantee) Ltd	26,953,446	276,346,394	8,267,012	249,299,603	142,348,060	241,032,591

##### 26.2 Transactions with key management personnel

The Company considers its Board of Directors as the key management personnel of the Company. Compensation paid to key management personnel are as follows:

	2012	2011	2010
	Rs.	Rs.	Rs.
Short term employee benefits	840,000	350,000	-
Post employment benefits	-	-	-

Mr. Gratian E Perera and Ms. Lalitha Chandrani Senaratne who are the directors of BRAC Lanka (Guarantee) Limited earned a honorarium of 420,000/- each during the year

#### 27 Events occurring after the balance sheet date

There were no material events occurring after the balance sheet date which require adjustments to or disclosures in the financial statements.

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 28 Explanation of transition to SLFRS/ LKAS

As stated in note 1.2 (a), these are the Company's first financial statements prepared in accordance with SLFRS/ LKAS.

The accounting policies set out in note 1.3 have been applied in preparing the financial statements for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of an opening SLFRS statement of financial position at 1 January 2011.

In preparing its opening SLFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with SLAS. An explanation of how the transition from previous SLAS to SLFRS/ LKAS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### Reconciliation of equity

		Previous SLAS	Effect of transition to SLFRS	SLFRS	Previous SLAS	Effect of transition to SLFRS	SLFRS
	Note	1 January 2011 (Rs. 000)			31 December 2011 (Rs. 000)		
<b>Assets</b>							
Cash and cash equivalents		175,942,975	-	175,942,975	25,579,312	-	25,579,312
Short term deposits		123,554,301	-	123,554,301	73,554,301	-	73,554,301
Loans and advances to customers	28.1	986,872,622	-	986,872,622	1,261,358,262	-	1,261,358,262
Other assets		10,543,667	-	10,543,667	3,964,069	-	3,964,069
Property, plant and equipment		46,657,379	-	46,657,379	47,130,532	-	47,130,532
Deferred taxation		878,988	-	878,988	2,003,165	-	2,003,165
<b>Total assets</b>		<b>1,344,449,932</b>		<b>1,344,449,932</b>	<b>1,413,589,641</b>		<b>1,413,589,641</b>
<b>Liabilities</b>							
Loan security fund		68,328,588	-	68,328,588	254,085,289	-	254,085,289
Related party payables		241,032,591	-	241,032,591	272,461,689	-	272,461,689
Borrowings		292,248,213	-	292,248,213	294,448,787	-	294,448,787
Other liabilities		221,558,769	-	221,558,769	24,741,626	-	24,741,626
Employee benefits		7,017,390	-	7,017,390	10,941,206	-	10,941,206
Current tax liability		21,501,399	-	21,501,399	22,795,207	-	22,795,207
Donor funds		514,369	-	514,369	-	-	-
<b>Total liabilities</b>		<b>852,201,319</b>	<b>-</b>	<b>852,201,319</b>	<b>879,473,804</b>	<b>-</b>	<b>879,473,804</b>
<b>Capital fund</b>							
BRAC contribution		460,599,963	-	460,599,963	460,599,963	-	460,599,963
Retained earnings		31,648,650	-	31,648,650	67,379,433	-	67,379,433
<b>Total capital fund</b>		<b>492,248,613</b>	<b>-</b>	<b>492,248,613</b>	<b>534,115,839</b>	<b>-</b>	<b>534,115,839</b>
<b>Total capital fund and liabilities</b>		<b>1,344,449,932</b>	<b>-</b>	<b>1,344,449,932</b>	<b>1,413,589,641</b>	<b>-</b>	<b>1,413,589,641</b>

# BRAC LANKA (GUARANTEE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 28 Explanation of transition to SLFRS/ LKAS (continued)

#### Reconciliation of comprehensive income for year ended 31 December 2011

Note	Previous SLAS	Effect of transition to SLFRS	SLFRS
	Rs.'000	Rs.'000	Rs.'000
Service charge on loans	373,121,918		373,121,918
Interest expense	(45,988,258)		(45,988,258)
<b>Net income from service charge</b>	<b>327,133,660</b>	<b>-</b>	<b>327,133,660</b>
Membership fees and other charges	8,415,743		8,415,743
Other income	9,733,518		9,733,518
Grant income	514,369		514,369
	18,663,630	-	18,663,630
<b>Total operating income</b>	<b>345,797,290</b>	<b>-</b>	<b>345,797,290</b>
Impairment losses on loans and advances to customers	10,881,417		10,881,417
Staff costs	157,858,525		157,858,525
Other operating expenses	100,754,040		100,754,040
Depreciation	8,674,888		8,674,888
VAT on Financial Services	3,869,545		3,869,545
	282,038,415	-	282,038,415
<b>Profit before tax</b>	<b>63,758,875</b>	<b>-</b>	<b>63,758,875</b>
Income tax expense	(21,797,456)		(21,797,456)
<b>Net profit for the year</b>	<b>41,961,419</b>	<b>-</b>	<b>41,961,419</b>
<b>Other comprehensive income</b>			
Actuarial gain/(loss) on employee benefit	(94,195)		(94,195)
<b>Total comprehensive income</b>	<b>41,867,224</b>	<b>-</b>	<b>41,867,224</b>

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

## 29 Financial Risk Management

### 29.1 Overview

The Company has exposure to the following risks from its use of financial instruments; credit risk, liquidity risk, market risk, operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

### 29.2 Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Company's primary business is micro financing activities, the Company's exposure to credit risk is primarily from its lending and financing to its members.

#### (a) Risk management approach

The credit granting to members is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the member through the use of historical records.

#### (b) Counterparty credit risk on financial instruments

##### (i) Credit Quality of Loans and Advances

	2012
	Rs.
Neither Past Due nor impaired	-
Past due but not impaired	-
Impaired	1,138,440,672
	<b>1,138,440,672</b>

##### (a) Neither Past Due Nor Impaired

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

**Total gross loan outstanding** 1,138,440,672

- (b) Past due but not impaired loans and advances where the members has failed to make a principal or interest/profit payment when contractually due, and includes loans and advances which are due one or more days after the contractual due date but less than three (3) months.

#### Aging Profile of Loans and Advances

##### Gross loans and advances

##### As at 31 December 2012

An aging analysis of loans, advances and financing which are past due but not impaired is as follows:

Loan Type	DAYS IN ARREARS					Total
	Current	1-30 days	31-180 days	181-365 days	366 < days	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Loans and advances	1,124,764,111	6,347,784	1,547,891	205,593	5,575,293	1,138,440,672

## BRAC LANKA (GUARANTEE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 29.3 Market Risk

##### (i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

##### (a) Currency risk

The Company is exposed to currency risk on Related Party Transactions with BRAC Bangladesh that are denominated in a currency other than the respective functional currencies of the Company.

##### (b) Interest rate risk

The Company does not have any borrowings with variable interest rates and all the borrowings are on fixed rate of interest.

#### 29.4 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.



# BRAC LANKA (GUARANTEE) LIMITED

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	2012	2011	1 January 2011
		Restated	Restated
	USD	USD	USD
<b>Assets</b>			
Cash and cash equivalents	67,079	226,346	1,597,594
Short term deposits	579,487	650,865	1,121,895
Loans and advances to customers	8,772,542	11,161,475	8,960,979
Other assets	27,450	35,077	95,738
Property, plant and equipment	329,590	417,047	423,657
Deferred taxation	16,984	17,726	7,981
<b>Total assets</b>	<b>9,793,132</b>	<b>12,508,536</b>	<b>12,207,845</b>
<b>Capital Fund and liabilities</b>			
<b>Liabilities</b>			
Loan security fund	-	2,248,343	620,436
Related party payables	2,531,395	2,410,952	2,188,619
Borrowings	1,884,762	2,605,511	2,653,666
Other liabilities	214,056	218,933	2,011,793
Employee benefits	129,224	96,816	63,719
Current tax liability	257,874	201,710	195,237
Donor funds	198,923	-	4,671
<b>Total liabilities</b>	<b>5,216,234</b>	<b>7,782,265</b>	<b>7,738,140</b>
<b>Capital fund</b>			
BRAC contribution	3,628,771	4,075,745	4,182,330
Retained earnings	948,127	650,525	287,375
<b>Total capital fund</b>	<b>4,576,898</b>	<b>4,726,271</b>	<b>4,469,705</b>
<b>Total liabilities and capital fund</b>	<b>9,793,132</b>	<b>12,508,536</b>	<b>12,207,845</b>

These figures are for memorandum purposes only and do not form part of the audited financial statements.

# BRAC LANKA (GUARANTEE) LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	USD	Restated USD
Service charge on loans	2,897,753	3,301,672
Interest expense	(228,294)	(406,940)
<b>Net income from service charge</b>	<b>2,669,459</b>	<b>2,894,732</b>
		-
Membership fees and other charges	54,332	74,469
Other income	143,050	86,130
Grant income	-	4,552
	<b>197,382</b>	<b>165,150</b>
<b>Total operating income</b>	<b>2,866,841</b>	<b>3,059,882</b>
		-
Impairment losses on loans and advances to customers	5,750	96,287
Staff costs	1,096,265	1,396,854
Other operating expenses	978,155	891,550
Depreciation	51,567	76,762
VAT on Financial Services	168,126	34,241
	<b>2,299,863</b>	<b>2,495,694</b>
<b>Profit before tax</b>	<b>566,978</b>	<b>564,188</b>
		-
Income tax expense	(257,667)	(192,881)
<b>Net profit for the year</b>	<b>309,311</b>	<b>330,587</b>
		-
Other comprehensive income		-
Actuarial gain/(loss) on employee benefit	181	(834)
<b>Total comprehensive income</b>	<b>309,492</b>	<b>329,754</b>

These figures are for memorandum purposes only and do not form part of the audited financial statements.

## BRAC LANKA (GUARANTEE) LIMITED

### STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	BRAC Contribution USD	Retained Earnings USD	Total Capital Fund USD
Balance as at 31 December 2010	4,182,330	302,425	4,484,754
Prior period adjustment (Note 1)	-	(15,049)	(15,049)
<b>Balance as at 1 January 2011 (Restated)</b>	<b>4,182,330</b>	<b>287,375</b>	<b>4,469,705</b>
Total comprehensive income for the period	-	329,754	329,754
Exchange equalisation reserve	(106,584)	33,396	(73,188)
<b>Balance as at 31 December 2011 (Restated)</b>	<b>4,075,745</b>	<b>650,525</b>	<b>4,726,271</b>
Balance as at 1 January 2012	4,075,745	650,525	4,726,271
Transferred from BRAC Sri Lanka	-	59,450	59,450
Total comprehensive income for the period	-	309,492	309,492
Exchange equalisation reserve	(446,974)	(71,341)	(518,315)
<b>Balance as at 31 December 2012</b>	<b>3,628,771</b>	<b>948,127</b>	<b>4,576,898</b>

#### Note 1 : Prior year adjustment

The Company had not recognised defined benefit obligation and deferred tax. Further it had erroneously calculated the amortization of donor fund investment on fixed assets. Those errors have now been corrected and impact on this financial statements are given below.

Overstatement of profit due to not recognising retirement benefit obligation	(63,719)
Understatement of profit due to not recognising deferred tax asset	7,981
Understatement of profit due to an error on amortization of donor fund received for fixed assets	40,688
	<b>(15,049)</b>

These figures are for memorandum purposes only and do not form part of the audited financial statements.

## BRAC LANKA (GUARANTEE) LIMITED

### CASHFLOW STATEMENT

For the year ended 31 December 2012

	2012	2011
	USD	USD
<b>Profit before tax</b>	566,978	564,188
<b>Adjustments for:</b>		
Depreciation	51,567	76,762
Loan loss provision	(73,339)	96,287
Gratuity provision	52,404	35,131
Deferred income	-	(4,552)
<b>Cash flow before changes in working capital</b>	<b>597,611</b>	<b>767,817</b>
<b>Changes in working capital</b>		
Decrease/(increase) of other assets	3,781	58,221
Increase/(decrease) of related parties payable	384,844	278,109
Increase/(decrease) of other liabilities	19,132	(1,741,590)
(Increase)/decrease interest receivable	(9,491)	(20,024)
Received from/ Transfer to BRAC Sri Lanka	(31,875)	-
(Repayment)/collection of loan security fund	(2,001,775)	1,643,719
	<b>(1,037,772)</b>	<b>986,251</b>
Loan disbursements	(18,316,025)	(22,456,588)
Loan collection	19,657,979	19,951,463
Gratuity paid	(9,198)	(1,243)
Tax paid	(183,495)	(191,380)
<b>Net cash flow from Operating Activities</b>	<b>111,489</b>	<b>(1,711,496)</b>
<b>Cash flow from Investing Activities</b>		
Acquisition of fixed assets	(9,846)	(80,949)
Withdrawal of fixed deposits	-	442,439
<b>Net cash flow from Investing Activities</b>	<b>(9,846)</b>	<b>361,490</b>
<b>Cash flow from Financing Activities</b>		
Donor fund received during the year	198,923	
(Repayment of borrowing)/ borrowings during the year	(435,011)	19,472
<b>Net cash flow from Financing Activities</b>	<b>(236,088)</b>	<b>19,472</b>
<b>Net decrease in cash in hand and at bank</b>	<b>(134,444)</b>	<b>(1,330,534)</b>
Cash in hand and at bank at beginning of the year	226,346	1,597,594
Exchange gain/(loss) due to exchange rate movement	(24,823)	(40,714)
<b>Cash in hand and at bank at end of the year</b>	<b>67,079</b>	<b>226,346</b>

## Notes

## Notes



## Notes

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