# CREDIT RATING REPORT

AAA	
AA2	BBB1
A3	BB2
	CCC1





# Credit Rating Report (Surveillance) BRAC

Ratings:				
Long Term	: AA	A		
Short Term	: ST-	-1		
Outlook	: Stal	ble		
Previous Ratings				
Date of Ratings	:	Long Term	Short Term	
23 October 2012	2	AAA	ST-1	

Date of Rating : 31 October 2013 Validity : 30 June 2014

Rating Based on: Audited financial statements up to 31 December 2012 and other relevant quantitative as well as qualitative information up to the date of rating declaration.

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

Analysts:

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BRAC (Micro Finance)

	Dec 2012	Dec 2011
No. of Active Members	5.84 Mill	6.77 Mill
No. of Active Borrowers	4.19 Mill	4.95 Mill
No of Village Organization	279,175	284,347

BRAC (Micro Finance)	Dec-12	Jun-12
Amount in BDT Mil		
Loan Portfolio	59,960.14	57,241.19
Members Savings	24,907.28	23,113.93
Total Asset	62,863.13	62,995.62
Net Surplus	3,505.11	2,456.50
Portfolio Yield (%)	26.24	26.19
PaR 30 days (%)	5.88	5.77
Capital Adequacy (%)	30.23	26.58
ROAA (%)	5.95	4.31
Operational Self Sufficiency (%)	129.71	121.14

## ■ RATIONALE

Credit Rating Agency of Bangladesh Limited (CRAB) has retained AAA (Pronounced Triple A) rating in the Long Term and ST-1 rating in short term of BRAC. MFIs rated AAA have extremely strong capacity to meet their financial commitments. AAA is the highest issuer credit rating assigned by CRAB. AAA rated entities are judged to be of the highest quality, with minimal credit risk.

MFIs rated in this category are considered to have the highest capacity for timely repayment of obligations. MFIs rated in this category are characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds. Rating is based on BRAC's large scale of operation; effective and efficient allocation and utilization of resources; contribution to uplift the socio economic condition of the country through education, health services, social and legal awareness with its services to underprivileged, micro credit loan programs for the poor people, strong financial and risk management practices. The rating considers BRAC's major development works including micro finance operation, education, health, legal & social empowerment, agricultural and environment programs. The rating reflects the excellent position of BRAC in terms of liquidity, internal fund generation, and access to alternative sources of funds.

BRAC is a development organization dedicated to alleviate poverty by empowering the poor, and helping them to bring about positive changes in their lives by creating opportunities for the poor. It's journey began in 1972 in the newly sovereign Bangladesh, and over the course of evolution, BRAC has been playing a role of recognizing and tackling the many different realities of poverty. The organization attempt tackling poverty on multiple fronts.

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Number of active member of BRAC micro finance operation was 5.84 million as on 31 Dec 2012. The number decreased compared to last year. This situation happened due to disbursement of medium sized loans to fewer members. The loan amount disbursed under DABI and PROGOTI increased in 2012. It's total loan outstanding up to Dec 2012 was BDT 59,960.14 million whereas PaR [>=30 Days] stood at BDT 3,524.57 million, which was 5.88% of total portfolio. PaR [>=30 days] growth was -10.78 in Dec 2012.The loan portfolio grew 13.92% in the same period. The organization kept its required provision according to MRA regulation at BDT 3,770.47 million balancing its portfolio quality. It's micro finance program's net surplus shared 64.13% of total BRAC's net surplus.

In 2012, 207,000 children from BRAC primary schools participated in the primary school completion exam (PSCE). It has achieved a success rate of 99.99 per cent with 11.6 per cent scoring A+. Students from 120 schools, operated by BRAC's local partner NGOs, took part in the primary school certificate examination (PSCE) for the first time during 2012. BRAC had 22,718 primary schools up to Dec 2012. BRAC supports 3,689 secondary schools across the country to help Government efforts in improving the quality of secondary education.

Currently running	22,718	24,398	24,398
Graduates (In Mill)	4.95	4.95	4.66
BEP teachers	38.273	37,567	37,875

BRAC health care is serving in 47 districts and over 110 million people of Bangladesh. These achievements are

made possible by the work and dedication of 105,631 community health volunteers (as of Dec 2012). Up to Dec 2012, 6.3 million populations were covered under Manoshi urban project where 93% patients received 3 or more post natal care and 99% patients received 4 or more Ante natal care. Overall, 61 per cent of BRAC health program clients of Manoshi and 41 per cent of rural MNCH program availed skilled attendants at the time of delivery in 2012, in comparison to 31.7 per cent nationally.

BRAC Health Care	Dec-12	Dec-11	June 2011
No. of BRAC Health	30	31	31
Centers			
Malaria Total Case	107,231	313,513	194,884
Tested	519		
Pregnant Women	6.3	5.7	5.66
Received ANC (In million)			
Tuberculosis Population	92.9	94.3	94.3
Covered (In million)	0,000,00		
Community Health	105,631	91,000	80,000
Volunteers			

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

Community Empowerment Program	Dec-12	Dec-11	Jun-11
No. of Polli Shomaj	11,617	11,234	11,278
No. of Union Shomaj	1,218	1,217	1,089
No. of HRLS Graduates	3.80 million	3.70 million	3.60 million

In Dec 2012, BRAC WASH program provided subsidies to more than 60,000 ultra poor households and loans to 12,000 poor households for purchasing and installing sanitary latrines. To install better hygiene behavior amongst different demographic groups, WASH program delivered hygiene education to over two and a half million people.

BRAC has social enterprises like Aarong, BRAC Dairy, BRAC Printing and packaging, Agro based program and Self Financing Social Development projects etc. During Dec 2012, revenue of "Aarong" stood at BDT 4,529.85 million, registering a 3-year CAGR of -10.58%. Its cost of service as % of revenue increased 2.72 percentage point from previous year. Hence, Aarong's net surplus in Dec 2012 stood at BDT 693.43 million sharing 12.37% of total BRAC net surplus. Total capital fund of Aarong increased to BDT 2,453.65 million. At present BRAC Dairy and Food projects



have 23 distributors and 37 sales centres nationwide. There was low growth in revenue and cost control mechanism. BRAC Dairy's (Cost of Service as % of Revenue) ratio increased to 92.54% whereas net surplus stood at BDT 194.81 million in Dec 2012. It shared 3.44% of total BRAC net surplus. However, capital fund increased to BDT 839.89 million in same period. During Dec 2012, 12.64% and 8.25% of total net surplus came from BRAC's self financed social development projects and Agro based program support enterprise respectively. BRAC enterprises allow 50 percent of the financial surplus used in BRAC development program.

BRAC has investments and is a shareholder of BRAC Bank Limited and Delta Brac Housing Finance Corporation Limited. Social enterprises have enabled BRAC to be 74 per cent self-sufficient and only 26 per cent reliant on donor funding.

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

#### Rating Scope

Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity or social impact of the programs of an NGO, although such considerations may affect CRAB's view on credit risk, such as access to capital or likelihood of refinancing. At the time of rating of BRAC, CRAB did not conduct any social research and survey on its programs. It is not within the purview of rating agency to carry out comprehensive impact study. However, CRAB at the time of rating of BRAC apart from its Micro Finance Operation and Business Enterprises, looked into various impact studies of BRAC's Health, Education, Environment and Legal programs and tried to understand how effectively and efficiently BRAC could link its program with its vision, mission and goals. CRAB's credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, dividends, and repayment of principal, insurance claims or counterparty obligations.

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	Table 1. AT A GLA	Table 1. AT A GLANCE		
BRAC (Micro Finance)	Dec 2012	Dec-2011	Dec-2010	
No of Members	5.84 mill	6.77 mill	8.05 mill	
No of Village Organization	279,175	284,347	303,616	
No of Borrowers	4.19 mill	4.95 mill	5.45 mill	
Districted Covered	64	64	64	
No of Branches	2,119	2,350	2,350	
Loan Outstanding	60,067 BDT mill	52,635 BDT mill	43,841 BDT mill	
Members Savings	24,907 BDT mill	22,364 BDT mill	19,966 BDT mill	
Members Savings	24,507 667 11111	22,501 551 11111		



Table 2: Eligibility Criteria of PKSF

ELIGIBILITY CRITERIA	As of 31 Dec 2012		
数字数据图 (A. 1989年)	Required	BRAC Actual	
Cumulative Loan Collection Ratio (On Total dues)	95%	99.65%	
Loan collection Ratio on Current dues ( on running 12 month basis)	92%-100%	98.76%	
Minimum Liquidity Ratio	10%	9.64%	
Minimum Current Ratio	1.50	2.74:1	
Minimum Capital Adequacy	20%	30.23%	
Minimum Debt Service Coverage Ratio	1.25	4.93:1	
Minimum Rate of Return on Capital	2%	21.21%	

Table 3: Micro Finance Operations: Key Financial Ratios of 30 Dec 2012

Capital Adequacy Ratio	Portfolio at Risk (>=30 Days)	Financial expense Ratio	Operational Self Sufficiency	Yield on Portfolio
30.23	5.88	7.13	129.71	26.24
Gearing Ratio (x)	Debt to Equity Ratio	Portfolio per credit staff	Total Income to Average Assets	Total Expenses to Average Assets
2.90	1.06	4,262	25.82	19.87
Return on Average Assets	Return on Average Equity	Liquidity Ratio	Capital /Asset Ratio	Deposit to Loan Ratio
5.95	21.21	9.64	29.07	41.54
Risk Coverage ratio	Gross Loan to Total Assets	Operating Expense Ratio	Write Off Ratio	Efficiency Ratio
106.99	95.38	10.31	4.22	18.42

## Notes:

- 1. All figures pertain to the organization's microfinance program as on 31 Dec 2012.
- 2. Active clients refer to those who save with BRAC MFI and attend centre meetings; active borrowers refer to the clients who have loans outstanding. Other income includes transfer from donor funds, interest on STD etc.
- 3. The PAR<sub>30</sub> and PAR<sub>180</sub> figures above are before write-offs in 31 Dec 2012.
- 4. The loan repayment ratio has been calculated from MIS reports generated by BRAC.
- 5. Monetary assets and liabilities denominated in foreign currencies as at 31 Dec 2012 have been converted into taka at the exchange rates prevailing at that date. 1 USD = 79.75 Taka.

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BRAC

#### ORGANIZATIONAL BACKGROUND

BRAC as a largest non-profit organization in the developing world, was launched in Bangladesh in 1972 and today reaches more than 135 million people in Africa , Asia and Caribbean through its programs that address poverty, illiteracy, disease and social injustice by providing micro finance, self-employment opportunities, health services, education, gender, agriculture and food security and legal and human rights services. BRAC's vision is a world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential. BRAC's work gives people a chance to transform their lives. BRAC invests in training and building human capacity in each country where it work. BRAC organize the most vulnerable, particularly poor women, for their own self-empowerment, rights, protection, work and collective voice, enabling them to fully develop themselves and contribute to their communities. BRAC, a national private development organization, was founded in 1972 by Sir Fazle Hasan Abed, KCMG. It is registered under the Societies Registration Act 1860.

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

BRAC is now considered the largest non-profit in the world – both by employees and people served. Its health programs serve more than 110 million people, its microfinance programs assist more than 8.00 million members, and its education programs reach more than 1.8 million children. BRAC tries to use funds from its social enterprises to pilot and spread other types of programs throughout Bangladesh. In Dec 2012, 98.70% of total BRAC net surplus arise from BRAC program support enterprises (unrestricted fund) and microfinance program. 26% percent of BRAC's annual expenditure USD 583 million was financed by donors and 74% financed by BRAC's own fund and external finance. BRAC's internal audit and financial monitoring department also smoothes the path for sustainable social enterprises. BRAC has computerized its entire microfinance program makes easier for it to closely monitor all of its loans and curtail ineffective practices. BRAC development program containing education, health, human rights and legal institutions, economic development, disaster management environment and climate change, agricultural and food security and water sanitation and hygiene. The major projects of BRAC have been discussed below.

#### ■ BRAC AGRICULTURE AND FOOD SECURITY

BRAC's agriculture & food security program works with government to ensure food security. This project builds system of production, distribution and marketing of quality seeds at fair price, conduct research to develop better varieties and practices for the agriculture sector. The program also promoted use of efficient farming techniques and proven technologies. Using environmentally sustainable practices, BRAC is helping Bangladesh to become self sufficient in food production. Research and development unit has recently initiated agronomic management of hybrid rice to expedite its extension in unfavorable environments so that rice varieties are resistant to high temperatures can tiller under submerged conditions and can mature faster with improved quality. There are 02 seed processing plants and 10 seed farms.

#### Highlights of 2012:

- Under this program tenant farmers were given credits against minimal interest rate and extension services
  without any extra charge. Moreover tenant farmers and crop diversification program in the north region of
  Bangladesh was initiated and second crop diversification project is running in collaboration with Asian
  Development Bank and the Ministry of Agriculture, Government of Bangladesh launched in 52 sub-districts of
  27 districts, this project has good potential for high-value crops in March 2012.
- 2. BRAC introduced a range of solar products from d.light (which produces all-purpose, high-brightness solar products) to the extensive network with special offers for underprivileged farmers.



## ■ BRAC EDUCATION

The BRAC Education Program (BEP) began in 1985. BRAC's education program (BEP) has become the largest secular, private education system in the world spreading from Bangladesh to six other countries. Around 4.95 million children have graduated from the BRAC primary school in Dec 2012. Over 700,000 students are enrolled in BRAC primary schools worldwide, which are designed to give a second chance at learning to the disadvantaged students dropped out from the formal education system. Number of primary students was 0.67 million in the same year. Around 10 million students have received basic education and nearly 5.00 million have graduated from BRAC's non-formal primary schools in Bangladesh alone. BRAC has expanded it's geographical coverage in hard-to-reach areas, such as Chittagong Hill Tracts, haors, baors, chars, and coastal areas. It has brought primary education to sub-merged area by introducing boat schools. There are 500 boat schools for children. These boat schools pick up teachers and registered students from the nearest settlement and drop them off in their home after classes.

In 2012, 207,000 children from BRAC primary schools participated in the primary school completion exam (PSCE) along with children in the government and private primary schools. It has achieved a success rate of 99.99 per cent with 11.6 per cent scoring A+. Students from 120 schools, operated by BRAC's local partner NGOs, took part in the primary school certificate examination (PSCE) for the first time during 2012. A total of 3,318 students, 69 per cent of whom are girls, appeared in the exam and 3,311 amongst them passed the exam, with 325 of them earning GPA 5 or A+. Mainstream secondary schools in Bangladesh have started using BRAC's e-learning methods. Computer aided learning methods and ICT services in BRAC's multi-purpose community learning centers received great recognition in the "Digital World 2012" organized by the Bangladesh Computer Council.

Pre-Primary School: BRAC had 15,164 pre-primary schools up to Dec 2012. Number of current student from pre primary schools up to Dec 2012 was 0.43 million. Around 4.35 million students graduate from pre-primary school.

Primary and Secondary School: BRAC had 22,718 primary schools up to Dec 2012. BRAC supports 3,689 secondary schools across the country to help Government efforts in improving the quality of secondary education.

Table 4

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

Adolescent Development Program: The adolescent development program started in 1993 set up for older children. This programs main objective is to improve quality of life of the participant and social awareness of the participant belongs to rural communities. There are 8,016 adolescence development centers having 202,251 members up to Dec 2012.

## Highlights of 2012:

- 1. BRAC operated 22,718 primary schools with 0.67 million students.
- 15,164 pre primary schools with 0.43 million students.
- 207,000 students from BRAC primary schools sat for the primary terminal exam in 2011. Pass rate was 99.99%.
- 3,224 teachers received value based training and 29,990 teachers have received training on English, mathematics and science.
- 5. Cost per child is USD 36.00.
- There are 2,545 community libraries.



#### Future Plan of BRAC Education:

BRAC plan to implement an additional 1,000 primary schools in the urban slums of Dhaka, Sylhet, Chittagong, Rajshahi, Khulna, Barisal, Rangpur, Jessore, Mymensingh, Comilla, Gazipur, and Norsingdi districts. BRAC also plans to launch 350 boat schools in hard-to-reach areas.

#### ■ BRAC HEALTH NUTRITION & POPULATION

BRAC health care is serving over 100 million people of Bangladesh. These achievements are made possible by the work and dedication of 105,631 community health volunteers up to Dec 2012.

Tuberculosis Control Program: Under the stewardship of the National Tuberculosis Program (NTP), the TB control program addresses childhood TB, multi-drug resistant strains, tobacco cessation, and HIV co-infection. By Dec 2012, 104,984 patients were treated in 47 districts. Total 92.9 million people came under the reach of this program up to Dec 2012. BRAC's TB treatment success rate was 93% which exceeds the national target of 85 per cent in 2012.

Malaria Control Program: BRAC malaria control program covers 11 million at-risk populations in 13 endemic districts. BRAC "Shasthya Shebikas" uses rapid diagnostic tests identify and treat patients and refer severe cases to the nearest health facilities. In 2012, BRAC streamlined it's malaria surveillance system by introducing reporting via mobile phone to community health workers. Total number of case tested 107,231 during Dec 2012.

Manoshi (Urban): Up to Dec 2012, 6.3 million populations covered under this project where 93% patients received 4 or more post natal care, 99% patients received 3 or more Ante natal care. Overall, 61 per cent of BRAC health program clients of Manoshi and 41 per cent of rural MNCH program availed skilled attendants at the time of delivery in 2012, in comparison to 31.7 per cent nationally.

Table 5:

BRAC Health Care	Dec 2012	Dec 2011	June 2011	Dec 2008
No. of BRAC Health Centers	30	31	31	31
Malaria Total Case Tested	107,231	313,513	194,884	147,390
Pregnant Women Received ANC (In million)	6.30	5.70	5.66	1.35
Tuberculosis Population Covered (In million)	92.9	94.3	94.3	88.5
Community Health Volunteers	105,631	91,000	80,000	74,000

Limb and Brace filling Centers (BLBC): There are 2 BLBC centers of BRAC which provide low cost, user friendly, quality artificial limbs and braces and physiotherapy to enhance mobility of the disable. Up to Dec 2012, 4.00 mill patients received different types of services from the center.

#### Highlights of 2012

BRAC Health (MNCH) program provides family planning and maternal, neonatal and child health needs in urban slums of eight city corporations and 10 rural districts, it covers 25.6 million people in the process. In 2012, this program improved the quality of care rendered through its community health promoters by upgrading their selection criteria, and training content, and diversifying their activities. BRAC initiated an expansion of MNCH services in *char* areas in four districts across northern Bangladesh. BRAC's delivery centers are gradually transforming into 'Basic Maternity Centers (run by trained paraprofessionals) in the urban areas.





#### New initiatives:

BRAC is expanding its network of private practitioners to enhance technical skills for TB case detection. It is also in the process of starting mass screening for TB case detection and treatment in the private sector – a social enterprise model using GeneXpert, a new diagnostic technology. BRAC started offering consultation services to the communities for cleft lip and palate, club foot, and other congenital defects, and referred them to other partner health care providers for treatment.

#### MIGRATION

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

#### Highlights of 2012

 In 2012, a total of 8,640 migration forum members rendered services to migrants and their family members and ensured justice through alternative dispute resolution for 127 migrant victims.

#### ■ COMMUNITY EMPOWERMENT

BRAC's Community Empowerment Program (CEP) empowers the poor, especially women, by mobilizing communities to translate awareness into action. BRAC Polli shomaj (PS) is organized at the ward level, encompassing 3–4 villages. Membership is now open to all members of the community, not just VO members. Two types of meetings are held bimonthly. The general committee meeting is a platform for discussion, raising awareness, and planning and implementing initiatives. In 2012, CEP focused on Polli Shomaj (a community-based institution) based development initiatives, leading communities to take a proactive role in ensuring rural people's access to basic services, proper maintenance of local infrastructure and prevention of violence against women. BRAC also launched a new initiative, 'ideal ward', with the assistance of Polli Shomaj. BRAC's community radio "Pollikontho" 99.2 FM awarded the first position in Family Planning Media Award 2012–13 competition organized by Family Planning Directorate of Ministry of Health & Family Welfare, Government of the People's Republic of Bangladesh in cooperation with UNFPA.

## Highlights of 2012:

- BRAC organizes around 600,000 members through 11,617 polli shomaj and more than 21,000 members through 1,218 union shomaj.
- 2. Polli shomaj and union shomaj have taken actions against 89,757 incidents of social injustice and violence against women.
- 3. BRAC has identified and reported 13,915 incidents of violence of which 4,702 violence survivors have received support including medical aid, shelter home and rehabilitation.
- 4. Under this 'Stop Violence' initiative, so far 2,012 women from *Polli Shomaj* have been trained on basic psychosocial counseling to counsel women who are victims of acid violence, rape and physical abuse.
- 5. In 2012, BRAC implemented a project to create awareness on the Right to Information (RTI) Act, aiming to promote implementation of the provisions of the act among rural citizens.



Table 6

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

#### New initiatives:

BRAC also initiated a pilot project to engage men and boys to prevent violence against women, which is built on an innovative participatory approach that identifies problems, finds solutions, develops action plans, and leads to the implementation of the action plans. This initiative is being implemented in 50 sites across 20 districts of Bangladesh.

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

BRAC's human rights and legal aid services (HRLS) program is dedicated to protecting and promoting human rights of the poor and marginalized through legal empowerment. This program creates an enabling environment for vulnerable and excluded communities to seek justice through formal and informal systems. Number of HRLS graduates in cumulative amount from inception to Dec 2012 was 3.80 million.

Table 7:

Human Rights & legal Aid Services	Dec 2012	Dec 2011	June 2011
Human rights & legal education classes held	163,473	160,307	157,917
Community leaders workshop held	15,683	14,943	14,381
Complaints received	186,766	167,519	158,498
Complaints resolved by ADR	101,248	90,805	85,724
Cases sent to court	34,603	29,348	27,302
Judgment received in favor	17,124	14,633	13,340

## ■ DISASTER, ENVIRONMENT AND CLIMATE CHNAGE

## Highlights of 2012

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

#### New Initiative

As part of DECC ongoing adaptive measures, it undertook various climate proofing interventions in 2012, such as providing weather forecasts and infrastructural support, including 43 disaster resilient housing and two desalination plants.

## ■ TARGETING THE ULTRA POOR (TUP)

BRAC's ultra poor program focuses on improving the economic and social situation of those who are living in extreme poverty, this group struggles to meet its minimal dietary requirements and faces difficulty to reach mainstream anti poverty program like microfinance. From January 2002 to December 2012, the Ultra Poor Program (TUP) covered 1.4 million households in 40 districts of Bangladesh, among which 415,700 households were reached through a full grant-based approach and the remaining 1,009,000 through a credit-plus-grant based approach.



Highlights of up to Dec 2012:

No. of women received asset	405,973
No. women received subsistence allowance	914,964
No. women received soft loan	1.00 mill
No. of women received training	1.42 mill
No of patients among the beneficiaries received financial support for morbidity	944,337

## ■ INTEGRATED DEVELOPMENT

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

## **■ GENDER JUSTICE AND DIVERSITY**

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

#### Highlights of 2012:

- MEJNIN (Meyeder Jonno Nirapad Nagorikotto) safe citizenship for girls) project underwent massive expansion in 2012, targeting 120,000 students in 400 secondary schools across the country. A total of 28,800 teachers, parents and community watch group members are engaged in MEJNIN to build awareness and confidence of students and community members to protect and protest against sexual harassment at public places.
- Gender, Quality Action Learning (GQAL) to enhance a positive life) project, reaching 390,000 households, covering around two million people in eight districts in Bangladesh; more than 47,000 barefoot equality promoters and 23,100 SAMPRITI (a forum for Strengthening Awareness, Mobility, Participation, Rights and Transforming Ideology) members contributed as agents of social change.

## ■ WATER, SANITATION AND HYGIENE

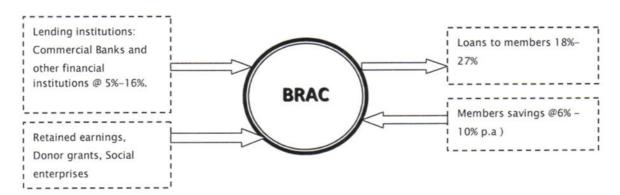
BRAC Water, Sanitation and Hygiene (WASH) program is aimed to reduce the proposition of people without access to safe drinking water and basic sanitation by half. This program has reached over 38 million people, provides sustainable and integrated WASH services in rural and isolated areas, breaking the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

#### Highlights of 2012:

Till December 2012, WASH provided subsidies to more than 60,000 ultra poor households and loans to 12,000 poor households for purchasing and installing sanitary latrines. To install better hygiene behavior amongst different demographic groups, this program delivered hygiene education to over two and a half million people.

## ■ MICRO FINANCE (MF)¹

Credit operations of BRAC are carried out through a Revolving Loan Fund (RLF). The sources of RLF are retained earnings, Donors' funds, group savings, and loans from commercial banks. BRAC takes loan from other financial institution at 5%-16%.



Graph: Fund Flow

BRAC micro finance loans are serviced by Village Organization (VO). Usually there are 30-40 members in each VO. Once a VO has a minimum of 20 members, activities may start. The VO serves as an informal guarantor through creating peer pressure to ensure timely payment. During each VO meetings borrowers repay their weekly or monthly installment and deposit savings. The Microfinance Program covers all 64 districts of Bangladesh with its 279,175 Village Organizations. There are 5.84 million VO members up to December 2012.

#### MICRO CREDIT SERVICES

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

Compulsory savings: Each member can deposit a minimum amount of BDT 10 weekly meeting. The amount is to be deposited weekly which is fixed by the member at the beginning meeting of the year. The interest rate for the savings is 6%. Voluntary savings: Each member can save for 3 years, 5 years, 8 years and 10 years on a monthly basis. The voluntary savings vary between BDT 100 to BDT 1,000. The interest rate is 7% for 3 years and 10% for 10 years period. In 2012 voluntary savings amount was BDT 2,827.73 million. Term deposits: Each member can save 1 to 10 years for a fixed time period. The amount will be between BDT 10,000 to BDT 100,000. Interest rate for the maturity period ranges from 7% in the first year to 10% for 10 years. Term deposit was BDT 4,166.02 million by the end of Dec 2012. Total members savings amount reached BDT 24,907.28 million registered a growth of 11.37%.

CREDIT PROGRAM: BRAC provides loans to its VO members to initiate different income generating activities. Loans to VO members have to bear annual service charge (18%-27% declining balance method). Repayments of loans are made in weekly or monthly installment. BRAC micro finance program has two segments; one is named as "Dabi" (combining Dabi and Unnoti) and another named Progoti. BRAC micro finance program shared 64.13% of total BRAC net surplus.

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



Table 8.

redit Ladder	Defination of Target Group	Terms & Condition	Product Details
		DABI members must attend	Loan size ranges between BDT
	DABI Target women from households		Description on the second second
		weekly VO meetings regularly.	11,000 - 75,000
	Than own no more than 1 acre of land		interest rate 18%-27% declining
DABI	( including homestead)	Saves regularly	balance method
DADI	They earnes their living by selling their	Not to be related with other	Repayments : 46 equal weekly
			and 12 monthly installment over
	manual labor	NGO's	one year period.
	That lives parmanently in that area.		
	<b>2011年第一大学的中华大学的</b>	DECEMBER NOT THE SECOND	A SECTION OF THE RESERVE
	PROGOTI targets men and women who	PROGOTI members must have	Loan size ranges between BDT
	operate existing micro enterprise and		
	are looking forward to expand	good entreprenioural skill	80,000 - 600,000 above
	They are DABI graduates or other	They can open a bank account to	interest rate 18%-27% declining
PROGOTI	looking to start a micro enterpise	receive their loan	balance method
			Loan terms 12, 18 and 24 months
			Repayment monthly installment

#### FINANCIAL ANALYSIS

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

## PORTFOLIO QUALITY

Table 9:

Particulars	Dec 2012	June 2012	June 2011	June 2010
Loan Portfolio (BDT Mill)	59,960.13	57,241.19	45,880.73	44,886.40
Portfolio Growth (%)	13.92	24.76	2.22	-0.54
Portfolio at Risk (BDT Mill)	4,616.22	4,346.95	4,986.53	6,388.97
PaR Growth (%)	-10.78	-12.83	-21.95	27.47

Portfolio at Risk (PaR): BRAC is a micro finance institution, whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial. The most widely used measure of portfolio quality in the micro finance industry is Portfolio at Risk (PaR), which measures the portion of the loan portfolio "contaminated" by arrears as a percentage of the total portfolio. The number 30 and 180 indicate days of arrear above or equal to the indicated days. Total loan portfolio of BRAC stood at BDT 59,960.13 million whereas PaR [>=30 Days] stood at BDT 3,524.27 million, which was 5.88% of total portfolio and 76.35% of total NPL. The loan portfolio growth 13.92% in Dec 2012: compared to portfolio growth (FY June 2012: 24.76%). In the Table 10 PaR [>=30 Days] and PaR [>=180 Days] as well as PaR [>=30 Days] and PaR [>=180 Days] after adjusting renegotiated loans were calculated.



Table 10:

Table 10.					
Ratio (%)	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
PaR>= 30 days	5.88	3.64	4.92	1.72	4.36
PaR>=180 days	3.90	2.09	3.40	1.15	3.6
Includes Renegotiated Ioan (9	6)				
PaR>= 30 days	5.88	5.77	7.97	7.95	7.98
PaR>=180 days	3.90	4.22	6.45	7.37	7.21

## Provisioning and reserve

From Table 11 it showed that proportion of loss category of loan shared the major portion of non-performing loan. Principal outstanding of loan portfolio of BRAC as on 31 December 2012 is categorized based on aging as mentioned below. The best practice rate of provision for each category as well as required provision is also calculated in the table 11. BRAC current loan loss reserve is kept accordingly with the required (Best Practice basis) loan loss reserve.

Table 11:

Statement of Loa	n Outstanding on 3	1 Dec 2012			CALLED CONTRACT
Loan Classification	Days in Arrear	Rate of Provision	Principal Outstanding	Proportion of Loan	Required Provision
				Amour	nt in BDT mill
Standard	Current	2%	55,343.92	92.30	1,106.88
Watch list	1-30 days	5%	1,091.94	1.82	54.60
Substandard	31-180 Days	25%	1,183.47	1.97	295.87
Doubtful	181-350 Days	75%	110.69	0.18	83.02
Loss	Over 350 Days	100%	2,230.11	3.72	2,230.11
Total			59,960.14	100.00	3,770.47

The loan loss reserve ratio reflects accumulated provision expenses (minus write-offs) of BRAC, which decreased to 6.29% in Dec 2012 from 7.26% in June 2012. However, BRAC has kept its required provision according to MRA regulation at BDT 3,770.47 million balancing its portfolio quality.

Table 13:

	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
<sup>2</sup> Loan Loss Reserve Ratio (%)	6.29	7.26	10.96	11.21	11.09
³Provision Expense Ratio (%)	3.03	3.16	4.15	4.37	4.67

## Risk Coverage Ratio

Table 14:

<b>国产的</b>	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
4Risk Coverage Ratio (%)	106.99	125.55	136.64	140.41	138.09

The Risk Coverage Ratio shows that in Dec 2012 it was 106.99% (in June 2012 it was 125.55%) of the Portfolio at Risk is covered by actual loan loss reserves. The reserve ratio decreased slightly. The Risk Coverage Ratio is analyzed in conjunction with Portfolio at Risk and Write-offs, since all three are interdependent. A PaR [>=30 Days] after adjusting renegotiated loan of 5.88% of loan portfolio on Dec 2012 can be termed as moderately safe as loans are not overdue by only a few days. Still write-offs loans reduce Portfolio at Risk in a quicker way.

<sup>&</sup>lt;sup>2</sup> Loan loss reserve ratio = Loan loss provision/ Loans to members.

<sup>&</sup>lt;sup>3</sup> Provision expense ratio = Loan loss provision expense / Average Gross Loan

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



#### Write-Off Position

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

Table 15.

	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
5Write-Off Ratio (%)	4.22	4.81	4.11	3.41	2.56

BRAC write-off loans which are overdue less than 350 days, than PaR [>=30 days] (before adjusting renegotiated loan) thus increase to 5.88% in Dec 2012 from 3.64% in June 2012.

## EFFICIENCY AND PRODUCTIVITY

Table 16.

Table 16:	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
<sup>6</sup> Efficiency Ratio (%)	18.42	16.54	13.79	14.12	15.40
Operating Expense Ratio (%)	10.31	12.19	13.09	11.72	10.05

The Asset size of BRAC stands at BDT 62,863.12 million on 31 Dec 2012 indicates its large size. Average loan size of the two programs of BRAC is as follows: Dabi BDT 21,539 and Pragoti BDT 172,533. Total outstanding loan as of 31 Dec 2012 was BDT 59,960.14 million (30 June 2012 is BDT 57,135.25 million), which was disbursed among 5.84 million members. BRAC'S operating expense ratio was 10.31% up to 31 Dec 2012 (30 June 2012: 12.19%) indicating decrease in administrative expense which reduced 1.88% from previous year.

#### OTHER INDICATORS

On an average BRAC incurred 5.6% cost for BDT 100.00 money lent. Cost per loan made is BDT 1,716 in Dec 2012. The trend of cost per unit of money lent indicates that BRAC's efficiency increased controlling cost in terms of utilization of money. However, Cost per loan made shows a marginal decreased trend in Dec 2012. At the same time, the Portfolio per Credit Staff ratio increased slightly.

Table 17:	Dec 2012	June 2012	June 2011	Dec 2010
Cost Per Unit of Money Lent (%)	5.6	6.4	7.8	6.9
<sup>9</sup> Cost Per Loan Made	1,716	1,769	1,702	1,494
Portfolio Per Credit Staff (In millions)	4.3	4.2	2.7	2.4
Borrower Per Staff	298	328	332	303

## FINANCIAL MANAGEMENT

BRAC's financial expense ratio presented in the following table 18 is calculated by dividing interest and fee expenses on funding liabilities by the period average gross loan portfolio. This ratio measures the total interest expenses incurred by BRAC to fund its loan portfolio.

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

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

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

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

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



Table 18

	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
10Financial Expense Ratio (%)	7.13	6.26	5.21	6.32	6.93

The difference between the portfolio yield and the financial expenses ratio is the net interest margin. This ratio is not the institution's credit spread, nor the average interest rate at which it borrows. Rather, this measure is used to determine the minimum lending rate BRAC must charge in order to cover its costs. The minimum lending rate can be determined by adding the Financial Expense Ratio, Provision Expense Ratio and Operating Expense Ratio. As of Dec 2012, Financial Expense Ratio is 7.13%, Provision Expense Ratio is 3.03% and Operating Expense Ratio is 10.31% through these ratios minimum lending rate for BRAC in 2012 can be calculated which would be (7.13%+3.03%+10.31%) = 20.47%.

Table 19:

Funding structure of BRAC MF	I on 31 Dec 2012	<b>公司2000年100日</b>
Amount in BDT mill		%
Current liability		
Members Savings	5,393.07	8.58
Bank Overdraft	4,179.18	6.65
Term Loans	9,598.01	15.27
Other Liabilities	2,611.15	4.15
Sub total	21,781.40	34.65
Long Term Liability		
Members Savings	19,514.22	31.04
Term Loan	2,942.74	4.68
Other Long Term Liability	348.93	-
Securitized financing	-	_
Sub total	22,805.89	36.28
Capital Fund		
Donor Fund	2,000.02	3.18
Retained Surplus	16,275.82	25.89
Sub total	18,275.84	29.07
Grand total	62,863.13	100.00

BRAC finances itself through members savings followed by capital fund. The funding structure of BRAC Micro Credit function as of Dec 2012 is given where 39.62% of its portfolio is financed through member's savings and 29.07% is from retained surplus and donor grant. Term loan from commercial banks shared 19.95% of BRAC MFI fund. On 31 Dec 2012 BRAC reliance on savings mobilization has increased than previous term.

## LIQUIDITY POSITION

The liquidity ratio indicates BRAC's ability to meet short-term liabilities and unforeseen expenses. BRAC's liquidity ratio during Dec 2012 decreased than previous year.

Table 20:

	Dec 2012	June 2012	June 2011	Dec-10	June-10
11Liquidity Ratio (%)	9.64	10.54	13.75	9.98	11.87

BRAC maintains credit lines with commercial banks from which they are able to draw required fund. As of 31 Dec 2012, it had 63 credit line facilities with different public and private commercial banks. There is another important measure of

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

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



liquidity which is measuring the percentage of deposit & borrowing supported by fully liquid assets (cash and term deposit).

#### LEVERAGE AND OTHER POSITION

Table 21:

Table 21.	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
Total Liability/ Equity	2.44	2.85	2.67	2.63	2.92
12Capital Adequacy Ratio (%)	30.23	26.58	28.76	29.70	27.98
Borrowed Fund / Equity	1.06	1.44	1.21	1.12	1.41

BRAC's leverage ratio reached at 2.44 in Dec 2012. Reliance on own fund signals positive impact.

Table 22:

Table 22.	Dec 2012	June 2012	June 2011	Dec 2010	June 2010
<sup>13</sup> Savings Outstanding Ratio (SOR) (%)	41.54	40.38	44.09	45.54	42.04
External Loan to Savings Deposit (%)	51.96	56.39	53.78	66.4	93.80

Savings Outstanding Ratio (SOR) BRAC's efficiency in savings mobilization from its savings fund and marked as strength of the institution. BRAC's ability has increased to fund its loan from its savings. External Loan to Savings Deposit indicates less dependence on volatile external loans rather than stable source (deposit). As of 30 Dec 2012, the ratio was 51.96%, the trend indicates that BRAC is gradually lessen its dependency on volatile external sources. Around 19.95% of its liabilities consist of term loan into capital structure. Capital Adequacy Ratio of BRAC was 30.23% in 31 Dec 2012 indicates stable capital adequacy level which reduces overall risk of the lenders/ depositors to the BRAC. The similar message could be derived from BRAC's MF Debt Service Coverage Ratio, which stood at 4.93:1 times in 30 Dec 2012.

#### **PROFITABILITY**

BRAC is a non-profit organization, the ROAE is used here as a proxy for commercial viability. ROAE of BRAC MFI increased in Dec 2012 due to increased service charge on loan and net surplus.

Table 23:

Table 23.	Dec 2012	June 2012	June-2011	Dec-2010
Return on Average Equity (%)	21.21	16.23	10.48	15.28
Return on Average Asset (%)	5.95	4.31	2.77	3.93
Average Portfolio Yield (%)	26.24	26.19	25.65	26.86

During Dec 2012 BRAC's total administrative cost reduced by 4.26% from June 2012. Portfolio Yields measures Indicates BRAC's ability to generate cash from interest, fees, and commissions on its gross loan portfolio. In Dec 2012 average portfolio yield slightly increased to 26.24% from 26.19% as the affect 13.92% growth in gross loan.

## SUSTAINABILITY

Operating Self Sufficiency: Operating self-sufficiency ratio of 31 Dec 2012 stood at 129.71%, (30 June 2012: 121.14%). It shows the ability of BRAC to cover costs of operations with internally generated income. BRAC earned 129.71% revenue to cover the organization costs.

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

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



Portfolio Analysis: BRAC's current loan portfolio consists of two programs namely: (i) "Dabi" Program and (ii) "Progoti" Program (Mentioned in Table 24 below). BRAC extended loans over 4.19 million borrowers. Loan Portfolio can be segregated in terms of (a) Geographic distribution (b) Grouping of micro credits for (i) the mainstream rural poor; (ii) the urban poor; (iii) the hard core poor; and (iv) micro entrepreneurs (c) Sectoral distribution and (d) Activity wise distribution (BRAC's schematic codes for various activities).

Table 24

December 2012	DABI	PROGOTI
Loan Disbursement (last 12 months)	BDT 54,217 mill	BDT 46,790 mill
Loan Outstanding	BDT 30,230 mill	BDT 27,790 mill
Savings Deposit	BDT 19,893 mill	BDT 4,439 mill
Active Borrower	3.72 mill	254,330
Average loan size(accounts)	BDT 18,964	BDT 161,083
December 2011	75 75 1 1 had 2	
Loan Disbursement	BDT 49,664 mill	BDT 36,602 mill
Loan Outstanding	BDT 29,878 mill	BDT 22,959 mill
Savings Deposit	BDT 18,498 mill	BDT 3,866 mill
Active Borrower	4.72 mill	239,566
Average loan size(accounts)	BDT 14,548	BDT 138,100

Grouping of BRAC Micro Credit: BRAC's total micro finance program could be grouped under four components. In the following table component wise loan amount along with its portion in terms of percentage form is given which is self-explanatory. However, it is seen that Rural Micro credit program accounts for 49.80% in Dec 2012. At the same time Micro enterprise borrower's majority is increasing which shared 46.35% of loan portfolio.

Table 25: Component wise Loan Portfolio (on 31 Dec 2012)

Component wise loan	Amount in BDT Mil	%
Rural Micro Credit Borrowers	29,858.72	49.80
Urban Micro Credit Borrowers	1,804.09	3.01
Hard Core Poor Borrowers	507.39	0.85
Micro Entrepreneurs Borrowers	27,789.94	46.35
Total	59,960.14	100.00

The loan components are classified as Current Portion, Regular, Non Performing Loan and Renegotiated loan in the following table. It showed component wise loan break up in actual as well as in percentages of total portfolio i.e. BDT 59,960.14 million is presented, which gives us an insight about the portfolio quality of BRAC Micro finances operation.

Table 26: Classification of Loan Portfolio (on 31 Dec 2012)

Loans to VO members	Rural Micro Credit Borrowers	Urban Micro Credit Borrowers	Hard Core Poor Borrower	Micro Entrepreneurs Borrowers	Total
Current Portion	28,970.29	1,751.52	492.49	26,334.55	57,548.85
Regular	11.39		-	218.82	230.20
Non Performing Loan	222.80	13.46	3.79	465.57	705.61
Renegotiated Loan	654.31	39.04	11.11	771.01	1,475.47
Total	29,858.78	1,804.03	507.39	27,789.94	59,960.14



Loans to VO members	Rural Micro Credit Borrowers	Urban Micro Credit Borrowers	Hard Core Poor Borrower	Micro Entrepreneurs Borrowers	Total
Current Portion	48.32%	2.92%	0.82%	43.92%	95.98%
Regular	0.02%	0.00%	0.00%	0.36%	0.38%
Non Performing Loan	0.37%	0.02%	0.01%	0.78%	1.18%
Renegotiated Loan	1.09%	0.07%	0.02%	1.29%	2.46%
Total	49.80%	3.01%	0.85%	46.35%	100.00%

Sector Wise Micro Credit Loans Portion: BRAC's total loan portfolio of BDT 59,960.14 mill (Net of Provision) has been divided in terms of sector. It is found that in 31 Dec 2012, 14.28% of its total loan portfolio is in agricultural sector. There are 46.35% and 31.86% loan disbursed in MELA and Rural Trading sector. BRAC operates in 64 districts of Bangladesh. In Dec 2012 maximum and minimum concentration of portfolio was in Dhaka districts 7.7% and 0.2% in Bandarban district.

Sector	31 Dec-2012			
	Amount ( Net of Provision)	%		
Agricultural	8,560.34	14.28		
Cottage Industry	108.43	0.18		
Fisheries	173.58	0.29		
Food Processing	753.28	1.26		
Health	13.11	0.02		
Housing	30.47	0.05		
Livestock and Poultry	963.24	1.61		
Miscellaneous	632.46	1.05		
Rural trading	19,104.49	31.86		
Rural Transport	383.84	0.64		
Sericulture	138.97	0.23		
UDP	1,287.80	2.15		
MELA	27,789.94	46.35		
Services	20.20	0.03		
Total	59,960.14	100.00		

## Asset Liability Matching:

In the Table 29 Asset & Liability matching of different maturity ladder for the total balance sheet position of BRAC on 30 Dec 2012 is depicted. In the case of all balance sheet position, it is seen that up to 12 months bucket, there was positive gap. Positive gap implies strong liquidity position of BRAC. Only in the >12<60 month bucket BRAC has negative net liquidity gap of around BDT 39,774.09 million and cumulative liquidity gap was BDT 1,856.49 million.



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

30 DEC 2012	Amount in BDT Million					
Assets	Up to 1 Month	>1<3 Month	>3<12 Month	>12<60 Month	>60 Month	Total
Total Current Asset	6,563.48	10,139.08	42,626.43	246.60	-	59,575.58
Micro Finance Loans						-
Regular	46.04	69.06	115.10	-	-	230.20
Renegotiated	73.77	147.55	663.96	590.19	-	1,475.47
Non performing	29.40	58.80	264.60	352.81	-	705.61
( Acc. Provision for doubtful loans and accts.)	_	-	(1,162.29)	(1,162.29)		(2,324.59)
Net Loans outstanding	149.22	275.41	(118.62)	(219.30)		86.70
Fixed Asset at costs	5.34	10.67	48.01	1,280.34	1,856.49	3,200.85
Total Non Current Asset	154.55	286.08	(70.61)	1,061.04	1,856.49	3,287.55
Total Assets	6,718.03	10,425.16	42,555.82	1,307.64	1,856.49	62,863.13
Liabilities and Capital						
Total Current Liabilities	2,454.98	5,389.87	13,936.55	-	-	21,781.40
Long Term Liabilities						-
Total Long Term Liabilities	-	-	-	22,805.89	-	22,805.89
Capital Fund		-	D.			2
Donor Funds		-	-	2,000.02		2,000.02
Retained Surplus	7-0	-	-	16,275.82	-	16,275.82
Total Capital Fund	-	-	2	18,275.84	-	18,275.84
Total Liabilities and Capital	2,454.98	5,389.87	13,936.55	41,081.73		62,863.13
Net Liquidity Gap	4,263.04	5,035.29	28,619.27	(39,774.09)	1,856.49	
Net Liquidity as % of Total Asset	6.78	8.01	45.53	(63.27)		
Cumulative Liquidity Gap	4,263.04	9,298.33	37,917.61	(1,856.49)		

## ■ BRAC ENTERPRISES

The unique model under which BRAC enterprises operate has evolved as completely home-grown and in isolation from the international dialogue regarding social enterprises. The "BRAC model" comprises of a collaborative network of Enterprises, Development Programs and Investments – all of which together serve the comprehensive vision and objective of BRAC, i.e. to empower the poor, alleviate social/environmental imbalance and enhance financial sustainability. BRAC Enterprises are mostly incepted as a support mechanism that allows the development programs to be sustainable, the surplus–generating model of the BRAC Enterprises allow for 50% of the surplus from the enterprises to support BRAC's expenditures, including Development Programs that are often run at very high costs, and the remaining 50% to be re-invested in the enterprises themselves, and as a result reduce the need for external funding.

"AARONG" was set up in 1978 as a fair trade organization by BRAC; "Aarong" plays a crucial role in promoting local crafts. It employs 65,000 artisans of which 80% are women. In 2012, revenue from "Aarong" stood at BDT 4,529.85 million, registering a 3-year CAGR of 18.75%.

Table 31: Aarong

Amount in BDT mill 2010 2009 Particulars 2012 2011 4,529.85 Total Revenue 4,150.03 3,397.34 2,701.95 12.80 Growth (%) 9.15 22.16 25.74 Net surplus for the year 693.43 703.90 508.64 676.23 Growth (%) -2.48-1.4938.39 25.57 Cost service provided as 85.69 82.97 79.57 82.31 % of Revenue

Cost of service increased slightly from previous year. Hence, its net surplus in Dec 2012 stood at BDT 676.23 million incurring -2.48% growths.



Table 32: Aarong

			Amount in BDT mill	
Particulars	2012	2011	2010	2009
Total Asset	2,994.22	2,573.58	2,178.81	1,646.2
Growth (%)	16.34	18.12	32.36	15.7
Total Liabilities	540.57	458.06	410.00	356.5
Net Assets – Capital fund	2,453.65	2,115.53	1,768.81	1,289.7
Growth (%)	15.98	19.60	37.15	24.44
ROAA (%)	24.29	29.62	36.81	33.15
Liability to Net surplus (x)	79.94	66.06	58.25	70.09
Liability to Asset (%)	18.05	17.80	18.82	21.66
Efficiency Ratio (%)	85.69	82.97	79.57	82.31
EBITDA / Sales (%)	14.93	16.71	20.72	18.83

In line with the growth of revenue and net surplus its asset base stood at BDT 2,994.22 million registering a growth of 16.34% from previous year. The enterprise is commercially viable) which is reflected in its ROAA. Total capital fund increased to BDT 2,453.65 million which was allocated to other BRAC programs. In Dec 2012, 11.94% of total BRAC net surplus received from Aarong, It launched two new outlets in Comilla and Moulovibajar districts.

BRAC DAIRY initiated in 1998 was established to provide a fair price for milk to the members of BRAC's village Organizations who invested micro loans received from BRAC for cows. BRAC Dairy has 100 collection and chilling stations located in 25 districts, including 10 located in ultra-poor areas. The enterprise collects 102,559 litres milk daily and 48,000 farmers, 64% being women. BRAC Dairy has 23 Distributors and 37 Sales centres nationwide, covering 16,000 outlets out of 23,000 and enjoying an overall market share of 22% with a dedicated consumer base of around 500,000. Its revenue stood at BDT 2,469.76 million in 2012. BRAC Dairy is currently the only dairy company in Bangladesh to have received ISO 22000 Certification, for quality control at every stage of production, processing, and distribution contributing to dairy products' safety record. There was low growth in revenue and cost control mechanism (Cost of Service as % of Revenue increased to 92.54% in 2012, the net surplus stood at BDT 194.81 million. In Dec 2012, 3.44% of total BRAC net surplus received from BRAC Dairy.

Table 33: BRAC DAIRY

			Amount in BDT mill	
Particulars	2012	2011	2010	2009
Revenue	2,469.76	2,385.27	1,891.08	1,460.84
Growth (%)	3.54	26.13	29.50	13.83
Net surplus for the year	194.81	231.38	163.30	123.95
Growth (%)	(15.80)	41.69	31.75	8.25
Cost service as % of Revenue	92.54	90.91	91.49	91.86

The ratios indicate profitability decreased than last year which attributed to the low revenue growth, net surplus, and cost control. As of December 2012, capital fund stood at BDT 839.89 million.



Table 34: BRAC DAIRY

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

There are 06 BRAC Poultry farms. 02 BRAC Feed Mills and BRAC Broiler Processing Plant which processed 1,600 metric tons of meat, 12 fisheries under BRAC Fisheries, BRAC Salt Industries produced 11,149 metric tons of salt, BRAC Cold Storage has a cold storage facility in Comilla district which has capacity of 4,000 metric ton for short term storage, and 16 horticulture nurseries. Also there are 4 tea gardens under BRAC Tea Estates in the Chittagong districts. The project employs 3,000 workers (including staff). BRAC printers & packaging 80% percent of its materials production is for BRAC's education programs and office requirements. It also produces calendars, dairies, security printings and university publications. The BRAC Printing Pack produces around 1,500 metric tons of finished flexible packaging materials per year and provides employment to over 100 workers. In Dec 2012, 12.64% and 8.25% of total net surplus came from BRAC self financed social development projects and Agro based program support enterprise. BRAC chicken launched in 2012 which has 15 ready-to-cook packaged foods into the market.

Table 35: BRAC Printing & Packaging

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

BRAc's profitability level increased and leverage position of BRAC Printing & Packaging increased in 2012. The capital fund of this venture increased slightly to BDT 216.24 million in 2012 which implies on the viability of the project. In Dec 2012, 0.13% of total BRAC net surplus received from BRAC Printing and Packaging which is very insignificant.

Table 36: BRAC Printing & Packaging

2012	2011	2010	2009
209 51			
200.31	274.85	279.98	242.32
4.97	-1.83	15.54	10.70
72.27	60.61	70.41	51.54
216.24	214.24	209.57	190.78
0.93	2.23	9.85	7.57
2.53	13.93	27.59	21.00
10.14	1.57	0.98	1.06
25.05	22.05	25.15	21.27
	72.27 216.24 0.93 2.53 10.14	72.27 60.61 216.24 214.24 0.93 2.23 2.53 13.93 10.14 1.57	72.27 60.61 70.41 216.24 214.24 209.57 0.93 2.23 9.85 2.53 13.93 27.59 10.14 1.57 0.98



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

Table 37: BRAC Investments In Related Undertakings

Related Undertakings (%)	2012	2011	Principal activities	
BRAC Bank Ltd.	43.77	43.77	Banking Business	
BRAC Industries Ltd.	99.90	99.90	Cold Storage	
BRAC BD Mail Network Ltd.	20.00	20.00	Internet service provider	
BRAC Services Ltd.	100.00	100.00	Hospitality	
Delta BRAC Housing Finance Corp. Ltd.	18.39	18.39	Housing finance	
Documenta TM Ltd.	80.00	70.00	Software development	
BRAC Karnophull Tea Company Ltd.	99.90	99.90	Tea Plantation	
BRAC Kaiyachara Tea Estate	99.90	99.90	Tea Plantation	
BRAC Banshkhali Tea Company Ltd.	99.9	99.90	Tea Plantation	
BRAC Kodala Tea Company Ltd.	99.10	99.10	Tea Plantation	
Bangladesh Netting Factory	94.00	94.00	Poultry processing	
BRAC Asset Management Company Ltd.	26.00	26.00	Management of Assets & Portfolio investment	
BRAC impact venture Ltd.	51.00	-	Sustainable conscious, green and ethical investment	
BRAC Environmental Enterprise Ltd.	90.00	_	Waste management service.	

## ■ BRAC INTERNATIONAL

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

## OTHER DIVISIONS

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

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ICT: Information and Communication Technology (ICT) department is making technological interventions to automate the organization's internal business process but is increasingly establishing itself as a centre of excellence for innovative solutions to complement it's effort in the local and global development arena. The department comprises of four units- software development, network, and hardware support and mid-range coverage desk. In 2012, ICT developed social media applications for employees including blogs and forums to ensure the effective flow of information and sharing of knowledge throughout the organization.

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

HUMAN RESOURCE DIVISION: Human Resource Division (HRD) works to ensure procedural justice, intensify transparency and equity, and promote innovation and quality. BRAC believes that the ability of the staff to perform well depends on qualities, skills and competencies. In 2012, it developed a strategic guideline for 2012–2013, and trained the division staff on performance management system. BRAC launched e-recruitment, an online system that enables candidates to apply electronically. The system notifies candidates via SMS for interviews. In addition, it has introduced web-based information services for BRAC's employees on the division's website (www.brachrd.org), including staff training and new vacancies. As of 31st December 2012, BRAC had 106,507 employees.

FINANCE AND ACCOUNTS: BRAC's finance and accounts department is responsible for financial planning and record-keeping, managing costs, assets and liabilities, financing investments, analyzing cash-flow and profitability, and preparing budgets and financial frameworks for the development programs. The department is accountable for donor grants, property, provident funds, employee gratuity, salary, tax and loans. It produces annual and monthly consolidated financial statements and fulfils the rules and regulations of the NGO Affairs Bureau, Microcredit Regulatory Authority (MRA) and other regulatory bodies. Through this department BRAC ensure effective financial control and transparency of the financial data of it's projects and enterprises, garnering the trust and confidence from all those with whom the organization work. In 2012, the department's annual financial statements are prepared in accordance with international reporting standards, for which it received an award from the Institute of Chartered Accountants of Bangladesh (ICAB)

## GOVERNANCE

GOVERNING BODY: The Governing Body comprises 10 members. Sir Fazle Hasan Abed, the Founder is the Chair Person of the Governing Body. All the other members of the Governing Body are distinguished, well reputed individuals in business and professions with pro-poor mindset have been elected to the Governing Body and bring their diverse skills and wise counsel in the governance of BRAC. During 2012, four meetings of the Governing Body and Annual General Meeting of the General Body were held.

OMBUDSPERSON: BRAC has established the office of the Ombudsperson with a comprehensive mandate to investigate any incident of misadministration and misuse of power within BRAC. This includes grievances, such as corruption, abuse of power or discretion, negligence, oppression, nepotism, rudeness, arbitrariness, unfairness and discrimination especially in the context of gender. Mr. Anis-uz-Zaman Khan, former Secretary-in-Charge of the Government of Bangladesh, has been appointed as the third Ombudsperson for BRAC for the period of November 15, 2010 to November 14, 2013.

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

- 1. Kazi Aminul Huque, FCA, Member, BRAC Governing Body Chair.
- 2. Tahrunnesa Abdullah, Member, BRAC Governing Body Member.
- 3. Parveen Mahmud, FCA Member.
- 4. Mahabub Hossain, Executive Director, BRAC Member.





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

## · Role and Purpose of this committee

The primary function of the Finance and Audit Committee ("the committee") is to assist the governing body in fulfilling its oversight responsibilities for: 1) The financial reporting and budgeting processes. 2) The systems of internal controls and risk assessments. 3) Compliance with legal and regulatory requirements. 4) Qualifications, independence, and performance of the external auditors, and 5) Qualifications, independence, and performance of the internal audit unit. The committee meets at least two times annually, or more frequently as deemed necessary by any committee member. A total of three meetings were held during 2012.

## Investment Committee

The Investment committee oversees the BRAC investments, and consists of the following members: 1. Sir Fazle Hasan Abed, Chairperson, BRAC Governing Body, Chairperson, 2. Mr. Latifur Rahman, Member, BRAC. Governing Body Member 3. Ms. Rokia A Rahman, Member, BRAC Governing Body Member 4. Ms. Luva Nahid Choudhury, Member, BRAC Governing Body Member. 5. Mr. Muhammad A (Rumee) Ali, Managing Director, Enterprises & Investments, BRAC Member Mr. S N Kairy, Group CFO acts as the Secretary of the committee. In 2012, the investment committee held a meeting on April 10, 2012.

## DEVELOPMENT PARTNERS

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

## ■ INNOVATIONS MANAGEMENT

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



## ANNEXURE 1:

Term Loans taken from following Concerns	DEC 2011	DEC 2012	
	BDT	BDT	
AB Bank Ltd.	11,791,844	-	
Agrani Bank Ltd.	52,400,000	-	
Bangladesh Bank	1,885,465,000	2,781,252,000	
Bangladesh Commerce Bank (BCB) Ltd.	-	77,670,320	
Bangladesh Krishi Bank (BKB)	90,843,614	÷	
Bank Asia Ltd.	400,000,000	351,539,520	
BASIC Bank Ltd.	227,499,357	376,730,251	
Citi Bank NA [guaranteed by OPIC & IFC]	543,750,000	=	
Citi Bank NA [local currency syndication]	190,000,000	33,000,000	
Dutch Bangla Bank Ltd.	74,231,260	343,708,515	
Eastern Bank Ltd.	299,785,929	464,913,739	
Export Import Bank of Bangladesh (EXIM) Ltd.	-	167,171,512	
FMO, Netherlands	733,607,144	489,071,430	
HSBC Bank Ltd.	1,200,000,000	500,000,000	
Islamic Development Bank (IDB)	343,450,000	( <del>=</del> )	
Jamuna Bank Ltd.	11,980,299	77,052,103	
Janata Bank Ltd.	39,854,545	-	
Norfund, Norwegian	293,442,856	195,628,570	
Palli Karma Shahayak Foundation (PKSF)	H-1	-	
Pubali Bank Ltd. (PBL)	57,728,118		
Rajshahi Krishi Unnayan Bank (RAKUB)	260,000,000	345,000,000	
Rupali Bank Ltd.	100,000,000	450,000,000	
Shahjalal Islami Bank Ltd.	42,044,973	131,555,140	
Sonali Bank Ltd.	220,862,915	=	
Southeast Bank Ltd.	, <del>-</del>	429,977,100	
Standard Chartered Bank (SCB)	4,086,885,714	4,675,257,142	
The City Bank Ltd.	-	517,931,390	
Uttara Bank Ltd.	Nº.	83,333,334	
UCBL		449,954,080	
Total	11,165,623,568	12,940,746,14	



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

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

NOTE: CRAB APPENDS NUMERICAL MODIFIERS 1, 2, AND 3 TO EACH GENERIC RATING CLASSIFICATION FROM BY THROUGH CCC. THE MODIFIER 1 INDICATES THAT THE OBLIGATION RANKS IN THE HIGHER END OF ITS GENERIC RATING CATEGORY; THE MODIFIER 2 INDICATES A MID-RANGE RANKING; AND THE MODIFIER 3 INDICATES A RANKING IN THE LOWER END OF THAT GENERIC RATING CATEGORY.

The Rating Committee of CRAB is the final authority to award a rating. The Rating Committee of CRAB is comprised of external
independent persons who are not members of the Board of the Company and they ensure the independence of rating

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## SHORT-TERM CREDIT RATING: MICRO FINANCE INSTITUTIONS (MFIS)

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

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