

**BRAC Afghanistan**

Microfinance Program

Audited financial statements December 31, 2004

**S. F. AHMED & CO.**

Chartered Accountants

*Associate Firm of Ernst & Young*

**BRAC Afghanistan**  
Microfinance Program  
Audited financial statements December 31, 2004

The accompanying financial statements were audited by [Faint text] in accordance with the standards of the International Federation of Accountants (IFAC) and the standards of the Institute of Certified Public Accountants of the United States of America (AICPA). The auditor's report is included in the financial statements.

The financial statements were prepared by [Faint text] and are the responsibility of the management of BRAC Afghanistan. The auditor's responsibility is to express an opinion on the financial statements based on the audit.

BRAC Afghanistan  
[Faint text]

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## INDIPENDENT AUDITORS' REPORT

We have audited the accompanying Balance Sheet of Microfinance Program of BRAC Afghanistan as of December 31, 2004 and the related Statements of Income and Expenditure and Cash Flows for the year then ended. These financial statements which are set out on pages 1 to 11, are the responsibilities of BRAC Afghanistan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of Microfinance Program of BRAC Afghanistan as of December 31, 2004 and the result of its operation and its cash flows for the year then ended in conformity with the accounting policy summarized in Note 2 of the financial statements.

  
S. F. AHMED & CO.  
Chartered Accountants  
Dhaka, Bangladesh.

23 May 2005

**BRAC Afghanistan  
Microfinance Programme  
Balance Sheet  
As at 31st December 2004**

	Notes	2004 US \$	2003 US \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash in hand and at bank	4	1,477,362	370,548
Advances, deposits and prepayments		23,411	-
Grants receivable		116,002	-
<b>Loans Outstanding</b>		<b>3,600,533</b>	<b>786,975</b>
Less: Loan Loss Provision		149,972	30,356
<b>Net Loans Outstanding</b>	5	<b>3,450,561</b>	<b>756,619</b>
<b>Total Current Assets</b>		<b>5,067,336</b>	<b>1,127,167</b>
Fixed assets	3	499,487	165,448
Less: Accumulated Depreciation		63,710	19,500
<b>Net Fixed Assets</b>		<b>435,777</b>	<b>145,948</b>
<b>TOTAL ASSETS</b>		<b>5,503,113</b>	<b>1,273,115</b>
<b>LIABILITIES</b>			
Deferred income	6	435,777	145,948
Current Liabilities	7	185,035	7,831
VO members' savings deposits	8	891,195	121,208
Grants received in advance	9	-	156,958
<b>Total Current Liabilities</b>		<b>1,512,007</b>	<b>431,945</b>
Loan Revolving Fund	10	3,409,623	792,944
<b>Total Liabilities</b>		<b>4,921,630</b>	<b>1,224,889</b>
<b>NET ASSETS</b>			
Capital Fund		581,483	48,226
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>5,503,113</b>	<b>1,273,115</b>

The annexed notes form an integral part of these statements.



**BRAC Afghanistan**  
**Microfinance Programme**  
**Income & Expenditure Statements**  
**for the period from January 1, 2004 to December 31, 2004**

Notes	2004 US \$	2003 US \$
<b>FINANCIAL INCOME</b>		
Administrative cost charge on loan	536,264	86,413
<b>Total Financial Income</b>	<b>536,264</b>	<b>86,413</b>
<b>FINANCIAL COST</b>		
Interest on loan revolving fund from MISFA	105,752	7,309
Profit on VO members savings deposits	86,171	1,683
<b>Total Financial Cost</b>	<b>191,923</b>	<b>8,992</b>
Gross Financial Margin	344,341	77,421
Loan loss provision	119,616	29,195
<b>Net Financial Margin</b>	<b>224,725</b>	<b>48,226</b>
<b>OPERATING COSTS</b>		
Salary & benefit	1,011,198	153,887
Training & development	291,441	36,116
Travelling & transportation	212,489	42,520
Stationery, rent & utilities	399,004	88,757
Maintenance and general expenses	59,278	-
Depreciation	44,210	11,820
<b>Total Operating Cost</b>	<b>2,017,620</b>	<b>333,100</b>
Net Income from Operations	(1,792,895)	(284,874)
<b>GRANT INCOME</b>		
Grants from MISFA to Cover Operational Deficit	11	2,123,371
<b>Net surplus of income over expenditure</b>	<b>330,476</b>	<b>48,226</b>

The annexed notes form an integral part of these statements.



**BRAC Afghanistan  
Microfinance Programme  
Statement of Changes in Net Assets  
for the year ended December 31, 2004**

	Capital Fund US \$	Total Net Assets US \$
At 1 January 2003	-	-
Net surplus for the year	48,226	48,226
<b>At 31 December 2003</b>	<b>48,226</b>	<b>48,226</b>
At 1 January 2004	48,226	48,226
Transferred following expiry of Pilot Program for Integrated Development in Afghanistan	202,781	202,781
Net surplus for the year	330,476	330,476
<b>At 31 December 2004</b>	<b>581,483</b>	<b>581,483</b>

The annexed notes form an integral part of these statements.



**BRAC Afghanistan  
Microfinance Programme  
Statement of Cash Flows  
for the period from January 1, 2004 to December 31, 2004**

Notes	2004 US \$	2003 US \$
<b>Cash flow from operating activities</b>		
Excess of income over expenditure	(1,792,895)	(284,874)
<b>Other cash from operating activities &amp; items not involving cash:</b>		
Depreciation	44,210	11,820
Deferred revenue transferred to income	(44,210)	(11,820)
Loan loss provision	119,616	29,195
Increase in grants receivable	(116,002)	-
Increase in advance, deposits and prepayments	(23,411)	-
Increase in deferred income	289,829	113,978
Increase in current liabilities	177,204	7,831
Increase/ Decrease in grants received in advance	(156,958)	72,848
Loan disbursements to VO members	(5,980,721)	(1,459,733)
Loan collections from VO members	3,181,477	718,660
<b>Net Cash provided by/ (used in) operating activities</b>	<b>(4,301,861)</b>	<b>(802,095)</b>
<b>Cash flow from investing activities:</b>		
Acquisition of fixed assets	(334,039)	(125,798)
<b>Net Cash provided by/ (used in) investing activities</b>	<b>(334,039)</b>	<b>(125,798)</b>
<b>Cash flow from financing activities:</b>		
Loan revolving fund from MISFA	2,616,679	690,145
VO members Saving deposits	769,987	117,782
Grants received from MISFA	12 2,140,240	531,746
Other funds	215,808	(41,232)
<b>Net cash provided by/ (used in) financing activities</b>	<b>5,742,714</b>	<b>1,298,441</b>
Net increase in cash and bank balances	1,106,814	370,548
Cash in hand and at bank, beginning of the year	370,548	-
<b>Cash in hand and at bank, end of the year</b>	<b>1,477,362</b>	<b>370,548</b>

The annexed notes form an integral part of these statements.



**BRAC Afghanistan  
Microfinance Program  
Notes to Financial Statements  
for the period from 1 January 2004 to December 31, 2004**

**1. Introduction:**

BRAC Afghanistan, an international private development organization, was formed in May 2002, registered under Non-governmental Organization Dept., Ministry of Planning vide registration No. 111 with a view to participate in the rehabilitation and reconstruction efforts of Afghanistan by adapting an environment friendly sustainable development approach through high-impact education, health, employment and income generation and capacity building interventions for the poor especially for women and children. At present, BRAC Afghanistan has a large number of development programs that cover the areas of health, education, microfinance, employment and training for the poor people of 17 provinces in Afghanistan. BRAC Afghanistan started its microfinance program in June 2002 with the financial support and close collaboration of MISFA and is now operating in major provinces in Afghanistan.

The goal of microfinance is to extend support to alleviate poverty in underdeveloped areas of Afghanistan that, to date, have not had a access to microfinance services.

**2. Summary of Significant Accounting Policies:**

BRAC Afghanistan prepares its financial statements under the historical cost convention on a going concern basis. BRAC Afghanistan generally follows the accrual basis of accounting or a key modified form thereof for key income and expenditure items, as disclosed in the Summary of Significant Accounting Policies. The financial statements are expressed in US Dollars.

The significant accounting policies followed in the preparation and presentation of these financial statements are summarized below.

**2.1 Basis of preparation of financial statements**

BRAC Afghanistan maintains Microfinance Program's books of account and records on a program or project-wise basis. The Main Office maintains records of all treasury, and management functions. All cash balances, including those held for programs, are held by the Main Office and transferred to programs as required. Balances between projects are eliminated upon combination for the purposes of presentation of the financial statements.

Microfinance Program's accounting records and financial statements are maintained and presented in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and internal reporting into funds established according to their nature and purposes based on the existence or absence of donor-imposed restrictions.





## 2. Summary of Significant Accounting Policies (contd.):

### 2.1 Basis of preparation of financial statements (contd.)

In the combined financial statements, funds have been classified within either of two net asset categories- temporarily restricted and unrestricted. Accordingly, the net assets of Microfinance Program changes therein are classified and reported as follows:

Net assets are subject to donor-imposed restrictions that permit BRAC Afghanistan to use or expend the assets as specified. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, any balance of temporarily restricted net assets are either returned to donors in accordance with donor agreement or utilized consequent to donor and management agreement on a temporarily restricted or unrestricted basis.

In case where restrictions expire, it is BRAC Afghanistan's policy to effect the reclassification of asset from temporarily restricted net assets to unrestricted net assets through transfers within the balance sheet.

### 2.2 Donor Grants

Income from donor grants is recognized when condition on which they depend have been met. Substantially, Microfinance Program's donor grants are for the funding of Microfinance Program, and for these grants, income is recognized to equate to expenditure incurred on projects and programs. For donor grants which involve funding for fixed assets, grant income is recognized as the amounts equivalent to depreciation expenses charged on the fixed assets concerned.

All donor grants received are initially recorded at fair value as liabilities in the Grants Received in Advance Account. For grants utilized to purchase fixed assets, the donor grants are transferred to deferred income accounts whilst for grants utilized to reimburse program-related expenditure, the amount are recognized as income. Donor grants received in-kind, through the provision of gifts and/or services, are recorded at fair value (excluding situations when BRAC Afghanistan may receive emergency supplies for onward distribution in the event of a disaster which are not recorded as grants). Income recognition of such grants follows that of cash-based donor grants and would thus depend on whether the grants are to be utilized for the purchase of fixed assets or expended as program-related expenditure.

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 expenditure yet to be funded but for which funding has been agreed at the end of the reporting period is recognized as grant receivable.



## 2. Summary of Significant Accounting Policies (contd.):

### 2.3 Revenue Recognition

#### *Administrative cost charge on loans to VO members*

Administrative cost charge on regular loans, that is, loans where no amounts are overdue as at the end of the reporting period are recognized on an accrual basis of income. The recognition of service charge ceases when the loan is transferred non interest bearing loan. These loans are referred to as "non-performing" loans.

Administrative cost charge previously accrued but not received on loan subsequently classified as non-performing is reversed. Administrative cost charge is included in income thereafter only when its receipts becomes probable, generally when it is realized. Loans are returned to the accrual basis only when the full amounts of outstanding arrears of loans are received and future collectibility is reasonably assured.

### 2.4 Foreign Currency Transactions

At the end of month expenditure incurred in Afghani during the month is translated into US\$ at the average exchange rate for that month with a view to preparation and presentation of financial statements and other reports. Monetary assets and liabilities denominated in Afghani at balance sheet date are translated into US\$ at exchange rate prevailing at that date.

### 2.5 Loans to VO members

BRAC Afghanistan's activities include providing microcredit loans to group members without collateral, on an administration cost charge basis under various programs. Loans are stated net of provision for loan losses.

### 2.6 Provision for loan losses

BRAC Afghanistan provides for loan losses based on 2% of loan disbursement made. Non-performing loans are monitored and admin cost charges are not recorded. Such loans are written off against the loan loss provision when recovery is unlikely. Management regularly assesses the adequacy of loan loss provision based on the age of the loan portfolio. Any collections received from loans previously written off are credited to the statement of income and expenditure.

### 2.7 General

- a) Figures have been rounded off to the nearest US\$.
- b) Certain comparative figures have been reclassified to conform with the current year's presentation.



### 3. Fixed Assets

Amount in US \$

Particulars	Cost			Depreciation			Written down value as at 31.12.04
	Opening balance as on 01.01.03	Addition during the year	Closing balance as on 31.12.04	Opening balance as on 01.01.03	Charged for the year	Closing balance as on 31.12.04	
Furniture and Fixtures	57,165	90,191	147,356	3,999	9,226	13,225	134,131
Equipments	58,989	202,850	261,839	8,896	23,159	32,055	229,784
Vehicles	32,494	-	32,494	6,605	5,499	12,104	20,390
Motor Cycles	16,800	38,537	55,337	-	6,080	6,080	49,257
Bi-Cycles	-	2,461	2,461	-	246	246	2,215
<b>Total:</b>	<b>165,448</b>	<b>334,039</b>	<b>499,487</b>	<b>19,500</b>	<b>44,210</b>	<b>63,710</b>	<b>435,777</b>



4. Cash in hand and at bank	2004	2003
	US \$	US \$
Cash in hand	52,166	35,378
Cash at bank	1,425,196	335,170
	<u>1,477,362</u>	<u>370,548</u>

5. Loans to Village Organization members

	Principal	Service charge receivable	Loan loss Provision	Total US\$
At January 01, 2004	786,703	272	(30,356)	756,619
Additions	5,980,721	536,267	(119,616)	6,397,372
Realization	(3,181,477)	(521,953)	-	(3,703,430)
At Decemebre 31, 2004	<u>3,585,947</u>	<u>14,586</u>	<u>(149,972)</u>	<u>3,450,561</u>

Loans to VO members bear admin. cost charge is 15% per annum on loan disbursed and repayments are made in weekly installments.

**Provisions for Loan Losses**

The loan classification and provisioning methodology followed by BRAC should be based on the conventional, international practice of microfinance institutions in different parts of the world catering to a large number of borrowers. The methodology which takes into account international best practice and circumstances relevant to Afghanistan, has five aging categories which are labeled correspondingly as "Standard", "Watchlist", "Substandard", "Doubtful" and "Loss". For each aging category and loan classification, there is a corresponding percentage loan loss provision, which is graduated upward as the period of arrears lengthens as shown below:

Loan Classification	Days in Arrears	Required Provisions
Standard	Current (no arrears)	1%
Watchlist	1-30	5%
Substandard	31-180	20%
Doubtful	181-350	75%
Loss	Over 350	100%

Had the loan classification and provisioning methodology stated above been followed the required would be US \$ 74,190 details of which are given below:

Loan Classification	Days in Arrears	Principal Outstanding as on 31 Dec' 2004 (US \$)	Required Provision 2004 (US \$)	Principal outstanding as on 31 Dec' 2003 (US \$)	Required Provision 2003 (US \$)
Standard	Current (no arrears)	3,568,793	71,376	683,146	13,663
Watchlist	1-30	9,587	479	103,557	5178
Substandard	31-180	6,267	1,254	-	-
Doubtful	181-350	875	656	-	-
Loss	Over 350	425	425	-	-
		<u>3,585,947</u>	<u>74,190</u>	<u>786,703</u>	<u>18,841</u>



**Provision for loan losses (Contd.)**

	2004 US \$	2003 US \$
Total current loan loss reserve	149,972	30,356
Total required loan loss reserve	<u>74,190</u>	<u>18,841</u>
Loan loss reserve is higher than the required reserve	<u>75,782</u>	<u>11,515</u>

**6. Deferred income-Investment in fixed assets**

Opening balance	145,948	31,970
Add: Transferred from grant received in advance	334,039	125,798
Less: Amortization to statement of Income & Expenditure	<u>(44,210)</u>	<u>(11,820)</u>
Closing balance	<u>435,777</u>	<u>145,948</u>

**7. Current Liabilities**

Liabilities for expenses	102,741	7,831
Profit on VO members savings	68,066	-
Membership fees	<u>14,228</u>	<u>-</u>
	<u>185,035</u>	<u>7,831</u>

**8. VO members' savings deposits**

Opening balance	121,208	3,425
Add: Deposit for the year	900,937	125,238
Less: Withdrawals during the year	<u>(130,950)</u>	<u>(7,455)</u>
Closing balance	<u>891,195</u>	<u>121,208</u>

**9. Grants received in advance**

Opening balance at 1 January	156,958	80,165
Add: Grants received during the year (Note-12)	2,140,240	531,746
Grants receivable	116,002	3,945
Less: Transferred to deferred income -investment in fixed assets (Note-5)	<u>(334,039)</u>	<u>(125,798)</u>
Transferred to Statement of Income and Expenditure for expenditure during the year (Note-11)	<u>(2,079,161)</u>	<u>(333,100)</u>
	<u>-</u>	<u>156,958</u>



10. Loan Revolving Fund form MISFA

	2004 US \$	2003 US \$
Opening balance	792,944	102,799
Add: Received during the year	<u>2,616,679</u>	<u>690,145</u>
Closing balance	<u>3,409,623</u>	<u>792,944</u>

11. Donors grants

Transferred from grants received in advance (Note-9)	2,079,161	333,100
Transferred from deferred income - amortization of investment in fixed assets (Note-3)	<u>44,210</u>	<u>-</u>
	<u>2,123,371</u>	<u>333,100</u>

12. Schedule of grants received during the year

<u>Date</u>	<u>Name of Donor</u>	<u>US \$</u>
18.03.04	MISFA	46,680
08.04.04	MISFA	717,659
09.07.04	MISFA	46,605
22.07.04	MISFA	717,659
17.09.04	MISFA	37,330
13.10.04	MISFA	<u>574,307</u>
	<b>Total:</b>	<u>2,140,240</u>



**BRAC-Afghanistan  
Microfinance Programme  
Financial Ratio Analysis**

*(Numerical data in US\$)*

Sl. No.	Ratio	Formula	Purpose	2004		2003	
				Calculation		Calculation	
<b>FINANCIAL SUSTAINABILITY RATIOS</b>							
1	Return on Performing Assets	Total Income / Average Total Assets	Indicates financial productivity of credit services and investment activities	$\frac{536,264}{3,388,114}$	16%	$\frac{86,413}{658,792}$	13%
2	Financial Cost Ratio	Financial Cost / Average Total Assets	Shows cost of funds: affected by mix of net worth, soft and hard loans	$\frac{191,823}{3,388,114}$	5.7%	$\frac{8,992}{658,792}$	1.4%
3	Loan Loss Provision Ratio	Loan Loss Provision / Average Total Assets	Indicates provisioning requirements on loan portfolio for current period	$\frac{119,616}{3,388,114}$	3.5%	$\frac{29,195}{658,792}$	4.4%
4	Operating Cost Ratio	Operating Cost / Performing Assets	Key indicator of efficiency of lending operations.	$\frac{2,017,620}{3,388,114}$	59.5%	$\frac{333,100}{658,792}$	50.6%
5	Operating Self-sufficiency	Financial Income / Total Cost	Shows the credit programs' ability to cover costs of performance with internally generated income	$\frac{536,264}{2,329,159}$	23.02%	$\frac{86,413}{371,287}$	23.3%
6	Savings Outstanding Ratio	Total Savings / Total Principal Outstanding	Shows the credit programs' ability to fund loans from its savings fund	$\frac{891,195}{3,585,947}$	24.8%	$\frac{121,808}{786,703}$	15.5%

**LIQUIDITY RATIOS**

1	Cash Position Indicator	Cash and Deposits due from Banks / Average Total Assets	Indicates ability to meet immediate cash needs	$\frac{1,477,362}{3,388,114}$	43.6%	$\frac{170,548}{658,792}$	26.2%
2	External Loan-to-Savings Deposits	External Net Loans / Total Deposits	Indicates dependency on volatile external loans rather than stable source (deposits)	$\frac{3,409,623}{891,195}$	382.30%	$\frac{792,944}{121,208}$	654.2%

**OPERATING EFFICIENCY RATIOS**

1	Cost per Unit of Money Lent	Operating Cost / Loan Disbursed	Indicates efficiency in disbursing loans	$\frac{2,017,620}{5,980,721}$	33.7%	$\frac{333,100}{1,459,733}$	22.8%
2	Cost per Loan Made	Operating Cost / Number of Loans Made	Indicates efficiency of disbursing loans (in terms of no. of borrowers)	$\frac{2,017,620}{68,168}$	29.60	$\frac{333,100}{16,894}$	19.72
3	Number of Active Borrowers per Credit Staff	Number of Active Borrowers / Number of Credit Staffs	Indicates performance of credit staff and efficiency of methodology	$\frac{55,571}{551}$	101	$\frac{15,710}{173}$	91
4	Portfolio per Credit Staff	Total Principal Outstanding / Number of Credit Staffs	Indicates potential financial productivity of credit staff.	$\frac{3,585,947}{551}$	6,508	$\frac{786,703}{173}$	4,547

**PORTFOLIO QUALITY RATIOS**

1	Portfolio at Risk	The principal balance of loans with at least five or more payment overdue / Total Principal Outstanding	Measures amount of default risk in portfolio	$\frac{7,567}{3,585,947}$	0.21%	$\frac{-}{786,703}$	0%
2	Reserve Ratio	Loan Loss Reserve / Value of Outstanding Principal	Indicates adequacy of reserves in relation to portfolio	$\frac{149,972}{3,585,947}$	4.1%	$\frac{29,195}{786,703}$	3.7%



**BBK Holdings Corporation**  
**Adjusted Earnings**  
**as of December 31, 2009**

Component	2009	2008
Income of Service Members	22,770	22,770
Income of Service Members	72,284	72,284
Income of Service Members	1,426	1,426
Income of Service Members	0	0
Income of Service Members	0	0
Income of Service Members	0	0
Loss of Service Members	\$ 1,000,000	\$ 1,000,000
Income of Service Members of the period	10,200	10,200
Income of Service Members of the period	\$ 1,000,000	\$ 1,000,000
Income of Service Members of the period	0	0
Income of Service Members of the period	\$ 1,000,000	\$ 1,000,000
Income of Service Members of the period	\$ 10,000	\$ 10,000
Income of Service Members of the period	0	0

Item	Total Revenue	Remaining Balance 2009	Total Revenue	Remaining Balance 2008
Revenue	11,000	111,700	8,000	111,700
Revenue	1,000	11,000	1,000	11,000
Revenue	11,000	111,700	1,000	111,700
Revenue	1,000	11,000	1,000	11,000
Revenue	1,000	11,000	1,000	11,000
<b>Total</b>	<b>11,000</b>	<b>111,700</b>	<b>1,000</b>	<b>111,700</b>

