

BRAC

Microfinance Programme

Audited Financial Statements

December 31, 2003

S. F. Ahmed & Co.

Chartered Accountants

House # 25, Road # 13A, Block - D

Banani, Dhaka 1213, Bangladesh

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INDEPENDENT AUDITORS' REPORT

To The Governing Body of BRAC

We have completed a non-statutory audit of the financial statements of BRAC as of December 31, 2003 in terms of the requirements laid down by IDA and PKSF. The figures in financial statements, modified to meet the said requirements, are the responsibility of BRAC'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. 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 financial statement presentation. 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 respects, the financial position of BRAC at December 31, 2003, the results of its operations and changes in its cash flows for the year then ended in accordance with International Accounting Standards.

S. F. Ahmed & Co.

S.F. Ahmed & Co.
Chartered Accountants
Dhaka, Bangladesh

May 12, 2004



BRAC
Balance Sheet
As at December 31, 2003

(Amount in Taka 000)

Notes	2003				2002				
	Micro Finance	Social Development	Commercial Projects	Consolidated	Micro Finance	Social Development	Commercial Projects	Consolidated	
Property and Assets									
Current Assets									
Cash, bank balances and short-term deposits	13	1,834,377	640,181	(53,030)	2,421,528	2,215,191	(159,514)	(103,385)	1,952,292
Receivables and other current assets	14	230,226	1,706,591	414,172	2,350,989	218,093	1,959,963	388,001	2,566,057
Loans to members	16(a)	10,185,965	-	-	10,185,965	8,468,279	-	-	8,468,279
(Acc. provisions for doubtful loans & accounts)	15(a)	(240,005)	-	-	(240,005)	(137,406)	-	-	(137,406)
Total Current Assets		12,010,563	2,346,772	361,142	14,718,477	10,764,157	1,800,449	284,616	12,849,222
Loans to members									
Regular	16(b)	657,658	-	-	657,658	202,489	-	-	202,489
Non-performing	16(c)	233,057	-	-	233,057	258,328	-	-	258,328
Renegotiated	16(d)	416,512	-	-	416,512	244,381	-	-	244,381
(Acc. provisions for doubtful loans & accounts)	15(b)	(509,771)	-	-	(509,771)	(514,351)	-	-	(514,351)
Net Loans outstanding		797,456	-	-	797,456	190,847	-	-	190,847
Investment in securities and others		-	430,907	-	430,907	-	314,475	-	314,475
Investment in related undertakings		-	887,104	-	887,104	-	467,511	-	467,511
Net Fixed Assets									
Used in microfinance operations	18	1,435,510	-	-	1,435,510	1,385,235	-	-	1,385,235
Used in social development operations		-	2,057,981	-	2,057,981	-	2,121,166	-	2,121,166
Used in commercial operations		-	-	222,228	222,228	-	-	243,159	243,159
Total Net Fixed Assets		1,435,510	2,057,981	222,228	3,715,719	1,385,235	2,121,166	243,159	3,749,560
Other Assets	17	207,114	37,076	895	245,085	190,441	23,258	907	214,606
Total Property and Assets		14,450,643	5,759,840	584,265	20,794,748	12,530,680	4,726,859	528,682	17,786,221
Liabilities and Capital									
Current Liabilities									
PKSF Loan	19(a)	824,133	-	-	824,133	401,600	-	-	401,600
Savings deposits	20(a)	1,550,938	-	-	1,550,938	1,525,682	-	-	1,525,682
Others	21	380,661	656,560	65,640	1,102,861	338,871	606,450	93,155	1,038,476
Other debts	22(a)	103,208	681,181	120,000	904,389	489,543	311,166	120,000	920,709
Total Current Liabilities		2,858,940	1,337,741	185,640	4,382,321	2,755,696	917,616	213,155	3,886,467
Long-Term Liabilities									
PKSF loan	19(b)	1,944,100	-	-	1,944,100	2,234,900	-	-	2,234,900
Savings deposits	20(b)	4,735,001	-	-	4,735,001	3,458,275	-	-	3,458,275
Other debts	22(b)	295,016	2,010,908	87,187	2,393,111	126,748	1,149,836	49,753	1,326,337
Total Long-Term Liabilities		6,974,117	2,010,908	87,187	9,072,212	5,819,923	1,149,836	49,753	7,019,512
Capital Fund									
Donor funds	23	1,799,457	275,437	-	2,074,894	1,798,699	274,689	-	2,073,388
Retained surplus	24	2,818,129	2,135,754	311,438	5,265,321	2,156,362	2,384,718	265,774	4,806,854
Total Capital Fund		4,617,586	2,411,191	311,438	7,340,215	3,955,061	2,659,407	265,774	6,880,242
Total Liabilities and Capital		14,450,643	5,759,840	584,265	20,794,748	12,530,680	4,726,859	528,682	17,786,221

The accompanying notes form an integral part of this statement.



Chairperson, Governing Body
BRAC
Dhaka, May 12, 2004



Executive Director
BRAC

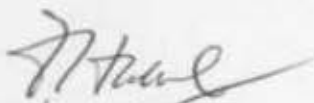


BRAC
Statement of Income and Expenditure
for the year ended December 31, 2003

(Amount in Taka 000)

Notes	2003				2002				
	Micro-Finance	Social Development	Commercial Projects	Consolidated	Micro-Finance	Social Development	Commercial Projects	Consolidated	
Income :									
Transfers from Donor funds	23	346	2,292,980	-	2,293,326	126	1,979,893	-	1,980,019
Service charges on loan	3	2,838,604	-	-	2,838,604	2,403,926	-	-	2,403,926
Interest on Short-Term Deposits	4	129,378	87,812	-	217,190	112,757	25,915	-	138,672
Income from Commercial Activities		-	-	1,505,708	1,505,708	-	-	1,217,262	1,217,262
Income from Programme Support Enterprises		-	2,251,326	-	2,251,326	-	1,717,514	-	1,717,514
Other income - Internal		-	116,335	(27,863)	88,472	-	41,332	(41,332)	-
Other income	5	39,156	116,494	2,797	158,447	28,095	102,742	10,418	141,255
Total Income		3,007,484	4,864,947	1,480,642	9,353,073	2,544,904	3,956,753	1,186,848	7,688,505
Expenditures:									
General and Administrative Expenses:									
Manpower compensation	6	1,130,185	1,482,492	111,676	2,724,353	1,018,608	1,237,482	85,205	2,341,295
Training, workshops and seminars	7	23,987	264,427	150	288,564	39,863	232,739	105	272,707
Occupancy expenses	8	66,388	219,848	54,521	340,757	58,672	182,450	27,054	268,176
Depreciation	18	72,914	113,140	39,582	225,636	60,821	123,703	40,917	225,441
Other general & admin. Expenses	9	248,082	711,580	40,379	1,000,041	232,439	730,705	33,378	996,522
Total General and Administrative Exp.		1,541,556	2,791,487	246,308	4,579,351	1,410,403	2,507,079	186,659	4,104,141
Cost Related to Commercial Activities		-	-	1,078,651	1,078,651	-	-	897,434	897,434
Cost related to Program Support Enterprises		-	2,019,329	-	2,019,329	-	1,459,458	-	1,459,458
Financial Cost of Operation									
Borrowing cost									
PKSF loan	10	149,793	-	-	149,793	122,717	-	-	122,717
Other debts	11	32,329	105,648	15,310	153,287	48,852	36,725	5,192	90,769
Savings deposits	12	280,368	-	-	280,368	262,409	-	-	262,409
Provisions for doubtful loans & accounts	16	367,824	-	-	367,824	312,707	-	-	312,707
Total Financial Cost of Operation		830,314	105,648	15,310	951,272	746,685	36,725	5,192	788,602
		2,371,870	4,916,464	1,340,269	8,628,603	2,157,088	4,003,262	1,089,285	7,249,635
Surplus/(deficit) of program income over expenditure		635,614	(51,517)	140,373	724,470	387,816	(46,509)	97,563	438,870
Surplus of income over expenditure before taxation		635,614	(51,517)	140,373	724,470	387,816	(46,509)	97,563	438,870
Provision for taxation on commercial projects		-	-	-	-	-	-	-	-
Net Surplus of income over expenditure transferred to Capital fund (Retained Surplus)	24	635,614	(51,517)	140,373	724,470	387,816	(46,509)	97,563	438,870

The accompanying notes form an integral part of this statement.



Chairperson, Governing Body
BRAC
Dhaka, May 12, 2004



Executive Director
BRAC



BRAC
Statement of Cash flows
for the year ended December 31, 2003

(Amount in Taka 000)

Notes	2003				2002			
	Micro Finance	Social Development	Commercial Projects	Consolidated	Micro Finance	Social Development	Commercial Projects	Consolidated
Cash flows from operating activities								
Excess of income over expenditures	635,614	(51,517)	140,373	724,470	387,816	(46,509)	97,563	438,870
Other cash from operating activities & items not involving cash	25 411,932	82,803	(159,536)	335,199	459,437	48,987	(314,260)	194,164
Loan disbursements for rural credit	26 (15,757,174)	-	-	(15,757,174)	(12,871,927)	-	-	(12,871,927)
Loan disbursements for urban credit	26 (727,352)	-	-	(727,352)	(742,716)	-	-	(742,716)
Loan disbursements for hard-core poor	26 (1,454,777)	-	-	(1,454,777)	(2,200,587)	-	-	(2,200,587)
Loan disbursements for microentrepreneurs	26 (2,760,699)	-	-	(2,760,699)	(1,250,674)	-	-	(1,250,674)
Loan collections from rural credit	26 14,500,390	-	-	14,500,390	12,169,960	-	-	12,169,960
Loan collections from urban credit	26 792,396	-	-	792,396	698,491	-	-	698,491
Loan collections from hard-core poor	26 953,030	-	-	953,030	2,141,704	-	-	2,141,704
Loan collections from microentrepreneurs	26 1,864,666	-	-	1,864,666	842,496	-	-	842,496
Net Cash provided by/(used in) operating activities	(1,541,974)	31,286	(19,163)	(1,529,851)	(366,000)	2,478	(216,697)	(580,219)
Cash flows from investing activities								
Acquisition of fixed assets	18 (123,189)	(151,057)	20,931	(253,315)	(454,495)	(37,210)	(2,825)	(494,530)
Sale of fixed assets	18 -	54,299	-	54,299	-	769	-	769
Short-term deposits purchase	13 70,000	7,583	-	77,583	(300,000)	(9,464)	-	(309,464)
Investment in related companies	-	(434,777)	-	(434,777)	-	30,758	-	30,758
Other investments	-	(116,432)	-	(116,432)	-	(228,577)	-	(228,577)
Net Cash provided by/(used in) investing activities	(53,189)	(640,384)	20,931	(672,642)	(754,495)	(243,724)	(2,825)	(1,001,044)
Cash flows from financing activities								
Loans from PKSF	19 131,733	-	-	131,733	222,000	-	-	222,000
Loans from other sources	27 (218,067)	1,231,087	37,434	1,050,454	(155,543)	297,750	109,894	252,101
Saving deposits	20 1,301,982	-	-	1,301,982	678,959	-	-	678,959
Other funds	28 68,701	(241,298)	(27,515)	(200,112)	93,171	131,689	120,453	345,313
Net Cash provided by/(used in) financing activities	1,284,349	989,789	9,919	2,284,057	838,587	429,439	230,347	1,498,373
Net increase in cash and bank balances	(310,814)	380,691	11,687	81,564	(281,908)	188,193	10,825	(82,890)
Cash in hand & at banks, beginning of the year	826,405	(509,169)	58,468	375,704	1,108,313	(697,362)	47,643	458,594
Cash in hand and at banks, end of the year	515,591	(128,478)	70,155	457,268	826,405	(509,169)	58,468	375,704



BRAC
Notes to Financial Statements
December 31, 2003

I. Introduction:

BRAC, a national private development organisation, was formed in 1972 under the Societies Registration Act 1860. Although it was first set up to resettle refugees in post-war Bangladesh, BRAC later redesigned its strategies in accordance with its philosophy of poverty alleviation and empowerment of the poor. At present, BRAC has a large number of development programmes that cover the areas of health, education, credit, employment and training for the poor people of Bangladesh. BRAC carries out licenced banking activities through BRAC Bank Ltd. and also earns from various income generating projects such as Aarong Rural Craft Centre, BRAC Printers and BRAC Dairy and Food project, BRAC Tea Estates and various programme support enterprises such as poultry farms, feedmills, seedmills and prawn hatcheries.

During the year, investments in related undertakings were made as follows:

		Taka
BRAC Bank Limited	- additional investment	67,450,000
Documenta TM Limited	- new investment	2,400,000
A.Q. Chowdhury & Sons Tea Estate Ltd.	- new investment	243,908,025
Purbachal Tea Company Limited	- new investment	63,300,695
Banshkhali Tea Company Limited	- new investment	27,709,870

BRAC also disposed of its investment in BRAC Renata Agro Industries Limited for a consideration of Taka 40,000,000 resulting in a net gain of Taka 7,735,190.

2. Summary of significant accounting policies:

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

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 maintains its books of account and records on a programme or project-wise basis. The Head Office maintains records of all treasury, investment and management functions. All cash balances, including those held for programmes, are held by the Head Office and transferred to programmes as required. Balances between projects are eliminated upon combination for the purposes of presentation of the financial statements.

These financial statements include the financial statements of BRAC and, on an equity accounted basis, those of the related undertakings in which BRAC has equity interests through which it exercises control or significant influence. As stated in Note 2. 8, BRAC, being a society under the Societies Registration Act, 1860, is not subject to any requirement to prepare consolidated financial statements.

In contrast to the ownership of equity interest in related undertakings, BRAC also extends gratuitous grants to certain organisation that, in some instances may bear names which resemble to BRAC, vis BRAC University and BRAC Afganistan. However, no equity is held in these entities, and BRAC's financial statements therefore do not include the financial statements of these entities.

BRAC'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.



2.2 Donor Grants

Income from donor grants is recognized when conditions on which they depend have been met. Substantially, BRAC's donor grants are for the funding of projects and programmes, and for these grants, income is recognized to equate to expenditure incurred on projects and programmes. For donor grants which involve funding for fixed assets, grant income is recognized as the amount equivalent to depreciation expenses charged on the fixed assets concerned. For donor grants provided to purchase motorcycles for specific projects, income is recognized over the estimated useful life of the motorcycles.

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 and motorcycles, the donor grants are transferred to deferred income accounts whilst for grants utilized to reimburse programme-related expenditure, the amounts 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 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 programme-related expenditure.

For completed or phased out projects and programmes, any unutilized amounts are dealt with in accordance with consequent donor and management agreements.

For ongoing projects and programmes, 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.

2.3 Expenses

Programme related expenses arise from goods and services being distributed to beneficiaries in accordance with the programme objectives and activities. BRAC's Head Office overhead expenses are allocated to various projects and programmes at a range of 5% to 10% of their costs, based on agreement with donors or management's judgement.

2.4 Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided for on a straight-line basis over the estimated useful lives at the following annual rates:

<u>Item</u>	<u>Annual Depreciation Rate (%)</u>
Buildings	2.5 – 4
Furniture & Fixtures	10
Equipment	15
Vehicles	20
Bicycles	20

2.5 Loans to VO Members

BRAC's activities include providing microcredit loans to group members without collateral, on a service charge basis under various programmes.



2.6 Provision for Loan Losses

BRAC provides for loan loss provision based on 2% of loan disbursements made. Non-performing loans are monitored and service charges are not recorded. Such loans are written off against the loan loss provision when recovery is unlikely. Management regularly assesses the adequacy of the 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 Investments in Related Undertakings

Related undertakings refer to separately-established undertakings in which BRAC has effective equity interests of more than 20%.

BRAC's investments in the undertakings are accounted for by the equity method whereby the investments are initially recorded at cost and subsequently adjusted to reflect BRAC's share of results for each period added to or deducted from the respective investment costs, from the dates of their acquisition and to the dates of their disposal.

2.8 Non-consolidation

BRAC, being a society registered under the Societies Registration Act, 1860 is not subject to any requirement on the preparation of consolidated financial statements. Accordingly, BRAC's investments in related undertakings wherein the effective equity interests are more than 50% are accounted for by the equity method as explained in Note 2.7 above.

2.9 Investments in Securities and Others

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

2.10 Accounts Receivable

Accounts receivable arise principally from BRAC's commercial activities and programme support enterprises, and are stated net of provision for doubtful debts.

2.11 Inventories

Retail inventories are stated at cost based on selling price less average mark-up, and other inventories are stated at cost. Provision is made for obsolete or slow moving items, to reduce their carrying amounts to net realizable value.

2.12 Motorcycle Replacement Fund

Applicable donor funds are utilized for providing motorcycles to project or programme staff, and these funds are held in a replacement fund. BRAC provides motorcycles to staff, the cost of which is recovered through monthly salary deductions. Donor funds received and utilised for the purpose of motorcycles are amortized to the statement of income and expenditure over a period of 5 years, being the average estimated useful life of the motorcycles.



2.13 Foreign Currency Translations

BRAC maintains its books of account in Bangladesh Taka. Transactions in foreign currencies are translated into Taka at the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Bangladesh Taka at exchange rates prevailing at that date and any gain or loss is recognized in the statement of income and expenditure.

2.14 Self - Insurance Funds

BRAC has created a self-insurance fund to cover the risk of cyclone and fire on its properties and motorcycles. This self-insurance fund is based on estimates by the Governing Body, and as from 2001 by reference to external actuarial valuations. It is held as a provision and is not externally funded.

BRAC also sets aside monthly amounts equivalent to 3% of the basic salary of employees, to constitute the group self-insurance fund. This fund is to cover liabilities arising out of death and other permanent injuries suffered by the employees. The terms of employment provide for payment in the event of death or permanent injury, of amounts ranging from 12 months' equivalent of basic salary in the first year of employment, to 50 months' equivalent of basic salary in the 10th year of employment onwards. The self-insurance fund for employees is held as a provision and is not externally funded. It is based on estimates by the Governing Body, and as from 2001 by reference to external actuarial valuations.

The extent of future liabilities requiring current provisions, and the rate of provisions required in the immediately following financial periods have been determined based on actuarial valuations carried out in 2003 in respect of the funds. It is BRAC's policy to carry out actuarial reviews at least every three years to assess the adequacy of the provisions in respect of these funds.

2.15 Employee Gratuity and Redundancy Fund

BRAC makes provisions for an Employee Gratuity and Redundancy fund, on the basis of two months' basic salary for each completed year's service for each permanent employee (based on basic salary of the last month). The fund is held as a provision and is not externally funded. Gratuity is to be disbursed upon retirement of employees whilst redundancy disbursements are to be made as a one-time termination benefit in the event of cessation of service from BRAC on grounds of redundancy.

The extent of future liabilities requiring current provisions, and the rate of provisions required in the immediately following financial periods have been determined based on actuarial valuation carried out in 2003. It is BRAC's policy to carry out actuarial reviews at least every three years to assess the adequacy of the provision in respect of the fund.

2.16 Borrowing Costs

All borrowing costs are recognised as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset, in which case these costs are capitalised as part of the cost of that asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.



2.17 Consolidated Information

Consolidated information have been provided in the financial statements for all programmes and activities, while providing a break down for microfinance activities (Note- 3 to 30).

"Segmental Financial Information and Statement of Functional Expenses have been set out in Notes 25 & 26 in the combined financial statements of BRAC for the year ended December 31, 2003 jointly audited by Ernst & Young, Malaysia and S.F.Ahmed & Co., Bangladesh. Figures shown in the above Notes have been classified into two Categories - Unrestricted and Temporarily Restricted. Figures related to microfinance programme activities which are not subject to any donor imposed restrictors have been shown in column "Unrestricted - Microfinance Programme" and those related to microfinance programme activities which are funded by donors and subject to donor - imposed restrictions have been included with the figures shown under column "Temporarily Restricted - Development Projects" in the Notes stated above. Deducting the figures shown in column "Unrestricted - Microfinance Programme" under aforementioned Notes from the figures shown in column "Microfinance" of the accompanying financial statements of BRAC for the year ended December 31, 2003 audited by S.F.Ahmed & Co. in terms of the requirements laid down by IDA and PKSF would result in indicative figures for Microfinance Development Projects" in Notes stated above.

3 Service charges on loan

	(Amount in Taka 000)	
	2003	2002
Rural microcredit borrowers	2,046,599	1,923,689
Urban microcredit borrowers	113,105	104,835
Hard core poor	352,696	241,791
Enterprising borrowers	326,204	133,611
	2,838,604	2,403,926

Interest is accrued on (i) Current loan (Note-16a) and (ii) Regular loan (Note-16b) and (iii) Renegotiated loan (Note- 16d) at the outset of each month.

Para 13 under subject "Interest Accrual, Loan Classification, Provisioning and Reserves" of " Terms of Reference for Annual and Management Audits of Large Partner Organizations" issued by PKSF on October 14, 2000 states, " Starting on the 30th day of non-payment of interest (including service charge) and/or principal , accrual of interest stops and interest accrued is correspondingly reversed. Unaccrued interest is booked as income as subsequently collected". This means when a loan is placed on a non-accrual basis, interest/service charge should be calculated and recorded, inclusive of interest previously accrued but not received, in the Memorandum Account until the loan is returned to accrual basis. As per instruction laid down in the TOR stated above, loans are returned to the accrual basis when the full amounts of the outstanding arrears of service charge and principal are received and any doubt about collectability is eliminated . Also, service charge on regular loans, i.e. loans where no amounts are overdue, as at the end of the reporting period, is recognized as income.

Had the instructions laid down in para-13 stated above been adhered to, the amount of service charge would be less (not quantified) than the amount shown here.

Service charges have not been accrued on the following non-performing loans:

Items	(Amount in TK. 000)					
	Principal (Taka)		Unpaid interest (Taka)		Unaccrued interest (Taka)	
	2003	2002	2003	2002	2003	2002
Principal amount of non-accruing loans						
Rural credit	180,891	196,829	23,787	25,530	14,319	15,007
Urban credit	10,449	8,334	1,349	1,080	814	635
Hard-core poor	41,717	53,165	5,544	6,896	3,273	4,054
Ultra hard-core poor	-	-	-	-	-	-
Microentrepreneurs	-	-	-	-	-	-
Total	233,057	258,328	30,680	33,506	18,406	19,696



(Amount in Taka 000)

	2003	2002
4 Interest on Short -Term Deposits		
Fixed deposits	129,378	112,757
	<u>129,378</u>	<u>112,757</u>
5 Other income		
Credit Management fee	4,048	4,205
Rental income	16,619	15,191
Project appraisal fees	18,489	8,699
	<u>39,156</u>	<u>28,095</u>
6 Manpower compensation		
Salaries and benefits	1,016,324	922,770
Travelling and transportation	113,861	95,838
	<u>1,130,185</u>	<u>1,018,608</u>
7 Training , workshops and seminars		
Staff training and development	23,987	39,863
	<u>23,987</u>	<u>39,863</u>
8 Occupancy expenses		
Office rent	39,049	40,075
Utilities (Electricity, Gas , Water, Telephone)	27,339	18,597
	<u>66,388</u>	<u>58,672</u>
9 Other general and administrative expenses		
Printing and office stationery	46,098	41,537
Maintenance	48,456	46,943
General expenses	43,846	32,154
Data processing	56,857	48,870
Insurance benefits paid to VO members	26,463	29,400
Provision for emergency fund	26,362	33,535
	<u>248,082</u>	<u>232,439</u>
10 Borrowing cost : PKSF loan		
Rural microcredit borrowers	122,830	109,015
Hard core poor	26,963	13,702
	<u>149,793</u>	<u>122,717</u>
11 Borrowing cost : Other debts		
Interest on loans from:		
Agrani Bank	12,096	7,732
Bangladesh Krishi Bank	8,567	9,435
Standard Chartered Bank	-	14,896
Credit Agricole Indosuez	-	3,030
Sonali Bank	5,397	13,445
Govt. of Bangladesh	6,269	314
	<u>32,329</u>	<u>48,852</u>



(Amount in Taka 000)

2003	2002
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12 Borrowing cost : Savings deposits

280,368	262,409
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Interest on savings deposits

The average rate of interest paid in respect of savings deposits by VO members was 6% (2002: 6%) per annum.

13 Cash, bank balances and short-term deposits

Cash in hand	18,049	18,656
Cash at banks	497,542	807,749
Fixed deposits	1,318,786	1,388,786
	<u>1,834,377</u>	<u>2,215,191</u>

Break-up of Fixed deposits are as follows:

Standard Chartered Bank	-	272,225
Bangladesh Krishi Bank	45,491	45,491
Southeast Bank Ltd	300,000	200,000
Bank of Asia	200,000	100,000
Delta BRAC Housing Financing Corp. Ltd	170,224	324,575
National Housing Finance and Investment Ltd	60,000	100,000
BRAC Bank Ltd.	251,741	100,000
Industrial Promotion Development Corporation	180,000	180,000
Dutch Bangla Bank Ltd.	-	66,495
Mercantile Bank	111,330	-
	<u>1,318,786</u>	<u>1,388,786</u>

14 Receivables and other current assets

Advances :		
Employees	9,960	7,207
Suppliers	7,838	2,821
Prepayments	29,753	22,181
Current accounts with field offices	23,237	24,714
Inventories	32,551	18,239
Interest receivable on fixed deposits	76,195	122,323
Interest receivable on Vo members loan (Note- 16)	112,393	77,313
	<u>291,927</u>	<u>274,798</u>
Less: Transfer to other long term assets (Note- 17)	(61,701)	(56,705)
	<u>230,226</u>	<u>218,093</u>

15 Provisions for doubtful loans & accounts

Provision for doubtful loans -Current	(240,005)	(137,406)
Provision for doubtful loans -Long Term	(509,771)	(514,351)
	<u>(749,776)</u>	<u>(651,757)</u>

a) Provisions for doubtful loans - Current

Opening balance	(137,406)	(107,953)
Add: Provision for the year	(367,824)	(312,707)
Less: Transfer to long term [Note- 15(b)]	265,225	283,254
Closing balance	<u>(240,005)</u>	<u>(137,406)</u>



(Amount in Taka 000)

b) Provisions for doubtful loans - Long Term

	2003	2002
Opening balance	(514,351)	(526,286)
Add: Transfer from current [Note- 15(a)]	(265,225)	(283,254)
Less: Loans write-off	269,805	295,189
Closing balance	(509,771)	(514,351)

Component wise break up of loan write-off is as follows:

Rural microcredit borrowers	212,525	261,637
Urban microcredit borrowers	8,717	666
Hard core poor borrowers	48,563	32,886
	269,805	295,189

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 Bangladesh, 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 provision would be Taka 648,887 details of which are given below:

Loan Classification	Days in Arrears	Principal Outstanding (Taka 000) As on December 31, 2003	Rate of Provision	Required Provisions (Tk000)
Standard	Current	10,088,877	1%	100,889
Watchlist	1 - 30	300,508	5%	15,025
Substandard	31 - 180	643,461	20%	128,692
Doubtful	181 - 350	224,262	75%	168,197
Loss	Over 350	236,084	100%	236,084
		11,493,192		648,887

2003

Total BRAC Current reserve (December 2003)	749,776
Total required reserve	648,887
BRAC Current reserve higher than the required reserve	100,889

Based on the above, required reserve to Taka 648,887 is considered adequate. BRAC current reserve is 13% at Taka 749,776 and is thus more than adequate.



16 Loans to village organization members :

(Amount in Taka 000)

	2003		
	Principal Outstanding	Service charge receivable	Loan loss provision
Opening balance	9,173,477	77,313	(651,757)
Additions	20,700,002	2,838,604	(367,824)
Realisations	(18,110,482)	(2,766,748)	-
Write-off	(269,805)	(36,776)	269,805
Closing balance	11,493,192	112,393	(749,776)

Loans to VO members bear annual service charges as follows:

Microcredit	15% flat
Housing	10% flat

Repayments are made in weekly/bi-weekly/monthly installments. The year-end loan loss provision based on 2% of disbursement made covers all loans 3 or more months past due.

Term and component wise breakup of total principal loan outstanding is as follows:

	(Amount in Taka 000)	
	2003	2002
a) Loans to members (Current portion)		
Rural microcredit borrowers	7,478,833	6,552,435
Urban microcredit borrowers	291,216	360,598
Hard core poor borrowers	1,275,412	809,374
Enterprising borrowers	1,140,504	745,872
	<u>10,185,965</u>	<u>8,468,279</u>

Loans with one or more instalment payments missed but within their maturity period are shown here. Besides, not due loans which will be due within next one year are also included under this head.

b) Loans to members : Regular

Rural microcredit borrowers	91,602	124,172
Urban microcredit borrowers	1,261	8,710
Hard core poor borrowers	-	-
Enterprising borrowers	564,795	69,607
	<u>657,658</u>	<u>202,489</u>

Loans with one or more installment payments missed but within their maturity period and those with no arrears (loan balance not due) have been considered as Regular loans. Loans which will be due after one year are shown here.

Loan balance not due	10,200,288	8,484,978
Loans with one or more installment payments missed	643,335	185,790
	<u>10,843,623</u>	<u>8,670,768</u>
Less: Transferred to loans to member under current assets [Note- 16(a)]	10,185,965	8,468,279
	<u>657,658</u>	<u>202,489</u>

But as per instruction laid down in TERMS OF REFERENCE FOR ANNUAL AND MANAGEMENT AUDITS OF LARGE PARTNER ORGANIZATIONS (BIPOOL), dated October 14, 2000, Regular loans represent loans where no amounts are overdue. Had the definition of regular loans been complied with, the amount shown under regular loans would be changed.

c) Loans to members : Non-performing

Rural microcredit borrowers	180,891	196,829
Urban microcredit borrowers	10,449	8,334
Hard core poor	41,717	53,165
Enterprising borrowers	-	-
	<u>233,057</u>	<u>258,328</u>

Non-performing loans represent non-interest bearing loan. Late loans (Note d) which remain outstanding at the end of their stipulated period are considered as non-interest bearing loan.



As per Annex B under subject "Definitions of Financial Terms Used" of TERMS OF REFERENCE FOR ANNUAL AND MANGEMENT AUDITS OF LARGE PARTNER ORGANIZATIONS (BIPOOL), dated October 14, 2000, "Non-Performing" means that an asset is not generating income. Assets are considered to be non-performing under circumstances as indicated below:

Arrears, Overdue or Past Due

Assets are considered in arrears, overdue or past due when:

- Principal or interest (service charge) is due and unpaid for thirty days or more;
- interest payments equal to thirty days' interest or more have been capitalized, refinanced, or rolled over. Credit extensions without pre-established repayment programmes are considered in arrears, overdue or part due when any of the following conditions exist:
 - i) advances exceed the customers' maximum approved loan(s) for thirty consecutive days or more; and/or
 - ii) interest is due and unpaid for thirty days or more.

The principal balance outstanding, not the amount of delinquent payments alone, is used in calculating the aggregate amount of non-performing obligations.

Had the aforementioned definitions of overdue been followed in the computation of non-performing loans, the amount of loans would be more than the amount shown here.

d) Loans to members : Renegotiated	(Amount in Taka 000)	
	2003	2002
Rural microcredit borrowers	319,282	201,476
Urban microcredit borrowers	6,961	6,006
Hard core poor	73,874	26,717
Enterprising borrowers	16,395	10,182
	<u>416,512</u>	<u>244,381</u>

Late loans have been treated as Renegotiated loans. Loans which remain outstanding after one month of their maturity period are considered as late loans. Under late loans, borrowers are allowed to repay the delinquent loan amounts within such maximum time period as the loan was initially sanctioned. In the case of one year general loan, a simple interest @15% per annum is charged on the outstanding loan balance considered as late loan for the six months and the loan is rescheduled for payment within six months. After the stipulated six months, a further simple interest @ 15% per annum is charged on the outstanding balance for the next six months and the loan is rescheduled for repayment within next six months. After expiry of the period specified for late loan, the outstanding loan balance inclusive of interest is transferred to Non-interest bearing loan.

17 Other Assets	(Amount in Taka 000)	
	2003	2002
Motor cycle loan to staff	145,413	133,736
Transfer from receivable and other current assets (Note- 14)	61,701	56,705
	<u>207,114</u>	<u>190,441</u>



18. Fixed Assets

(Amount in Taka' 000)

Group of fixed assets	Cost				Depreciation				Written down value 31/12/2003	Written down value 31/12/2002
	Opening balance 01/01/2003	Additions during the year	Disposal/ Adj. during the year	Closing balance 31/12/2003	Opening balance 01/01/2003	Charges during the year	Adjustments during the year	Closing Balance 31/12/2003		
Land	566,121	50,399	-	616,520	-	-	-	-	616,520	566,121
Buildings	813,009	29,454	-	842,463	154,211	33,100	-	187,311	655,152	658,798
Furniture & fixtures	125,631	7,346	4,005	136,982	64,624	10,430	801	75,855	61,127	61,007
Equipment	150,467	24,045	9,740	184,252	53,617	27,776	1,548	82,941	101,311	96,850
Vehicles	12,356	44	-	12,400	11,788	581	-	12,369	31	568
Bicycles	8,851	505	-	9,356	6,960	1,027	-	7,987	1,369	1,891
Total year 2003	1,676,435	111,793	13,745	1,801,973	291,200	72,914	2,349	366,463	1,435,510	1,385,235
Total year 2002	1,225,655	450,780	-	1,676,435	226,833	60,821	3,546	291,200	1,385,235	



(Amount in Taka 000)

19 Liabilities: PKSF Loan

	2003	2002
Current Liabilities: PKSF Loan	824,133	401,600
Long -Term Liabilities: PKSF Loan	1,944,100	2,234,900
	<u>2,768,233</u>	<u>2,636,500</u>

Term wise movement of PKSF loan is as follows:

a) Current Liabilities: PKSF Loan

Opening balance	401,600	200,000
Add : Transfer from long -term liabilities : PKSF loan (Note b)	840,800	401,600
Less: Repaid to PKSF during the year	(418,267)	(200,000)
Closing balance	<u>824,133</u>	<u>401,600</u>

b) Long -Term Liabilities: PKSF Loan

Opening balance	2,234,900	2,214,500
Add: Received from PKSF during the year	550,000	422,000
Less : Transfer to Current liabilities : PKSF loan (Note a)	(840,800)	(401,600)
Closing balance	<u>1,944,100</u>	<u>2,234,900</u>

- i) Loan from PKSF of Tk.3,201,000 was obtained to support the credit programme and bears service charge at 5% to 7% (2002: 5% to 7%) per annum. Each drawdown is repayable in ten equal half yearly installment.
- ii) Loan from PKSF of Tk. 292,000 was obtained to support the Participatory Livestock Development Programme and bears service charge at 6.25% (2002: 6.25%) per annum. Each drawdown is repayable in ten equal quarterly installments.

20 Liabilities: Savings deposits

Current Liabilities: Savings deposits	1,550,938	1,525,682
Long -Term Liabilities: Savings deposits	4,735,001	3,458,275
	<u>6,285,939</u>	<u>4,983,957</u>

Term wise movement of Saving deposits is as follows:

a) Current Liabilities: Savings deposits

Opening balance	1,525,682	1,452,846
Add: Transfer from long term savings (Note b)	2,650,000	2,369,000
Less: Withdrawals for the year	(2,624,744)	(2,296,164)
Closing balance	<u>1,550,938</u>	<u>1,525,682</u>

b) Long -Term Liabilities: Savings deposits

Opening balance	3,458,275	2,852,151
Addition during the year	3,926,726	2,975,124
Less: Transfer to current liabilities (Note a)	(2,650,000)	(2,369,000)
Closing balance	<u>4,735,001</u>	<u>3,458,275</u>

21 Current Liabilities: Others

Liabilities for expenses	256,409	241,955
Emergency fund	92,700	66,339
VO members current and project accounts	31,552	30,577
	<u>380,661</u>	<u>338,871</u>

22 Liabilities: Other debts

Current Liabilities: Other Debts	103,208	489,543
Long -Term Liabilities: Other Debts	295,016	126,748
	<u>398,224</u>	<u>616,291</u>



Term wise movement of other debts is as follows:

a) Current Liabilities: Other debts (Amount in Taka 000)

Particulars	2003				2002
	Opening balance (01/01/2003)	Transferred from long term debts	Repaid during the year	Closing Balance (31/12/2003)	
Agrani Bank	72,000	60,000	(72,000)	60,000	72,000
Government of Bangladesh	6,151	34,675	(34,675)	6,151	6,151
Bangladesh Krishi Bank	11,392	12,057	(11,392)	12,057	11,392
Sonali Bank	100,000	-	(100,000)	-	100,000
Standard Chartered Bank	300,000	25,000	(300,000)	25,000	300,000
	<u>489,543</u>	<u>131,732</u>	<u>(518,067)</u>	<u>103,208</u>	<u>489,543</u>

b) Long -Term Liabilities: Other debts (Amount in Taka 000)

Particulars	2003				2002
	Opening balance (01/01/2003)	Received during the year	Transferred to current other debts	Closing Balance (31/12/2003)	
Agrani Bank	-	300,000	(60,000)	240,000	-
Government of Bangladesh	50,596	-	(34,675)	15,921	50,596
Bangladesh Krishi Bank	51,152	-	(12,057)	39,095	51,152
Sonali Bank	25,000	-	(25,000)	-	25,000
	<u>126,748</u>	<u>300,000</u>	<u>(131,732)</u>	<u>295,016</u>	<u>126,748</u>

The terms of individual loan are detailed below:

- Loan from Agrani Bank was obtained to support credit programme bears interest at 9.5% (2002: 9.5%) per annum and is repayable in 5 equal half yearly installments, starting from September 2004.
- Loan from the Government of Bangladesh was obtained to disbursed among VO members as Housing loans, and bears interest at 1% per annum. The loan is repayable is equal half yearly installment over 5 years, starting from August 2000.
- Loan from BKB bears interest at 8% (2002: 8%) per annum and is repayable in twenty equal half yearly installment, starting from January 01, 1998 and ending on July 01, 2007.
- Loan from Sonali Bank bears interest at 10% (2002: 10%) per annum and is repayable in quarterly installment with accrued interest within three years including one year moratorium at the beginning, starting from October 31, 2001.

(Amount in Taka 000)

	2003	2002
Opening balance	22,434	-
Donation received during the year (See Note- 23.1)	1,104	41,906
Transferred to deferred income investment in loan	(13,041)	(19,346)
Transfer to Income for expenditure during the year	(346)	(126)
Closing balance	<u>10,151</u>	<u>22,434</u>
Deferred income -investment in fixed assets	295,089	295,089
Deferred income -investment in loan	1,494,217	1,481,176
	<u>1,799,457</u>	<u>1,798,699</u>

23 Capital Fund : Donor funds

Grants received in advance account:

Opening balance

Donation received during the year (See Note- 23.1)

Transferred to deferred income investment in loan

Transfer to Income for expenditure during the year

Closing balance

Deferred income -investment in fixed assets

Deferred income -investment in loan



23.1 Schedule of donation received:

Name of the project	Donor	Amount in Taka 00	Received on
1. WFCL Programme in Haragacha	ILO	1,104	09/09/2002
	Total	<u>1,104</u>	

24 Capital Fund : Retained surplus

Retained surplus, beginning balance	2,156,362	1,772,245
Add. Adjustment for the year	26,153	(3,699)
Add. Surplus for the year	635,614	387,816
Retained surplus, ending balance	<u>2,818,129</u>	<u>2,156,362</u>

25 Other cash from operating activities & items not involving cash

Depreciation (Note- 18)	72,914	60,821
Loan loss provision (Note- 16)	367,824	312,707
Decrease/(Increase) of receivable and other current assets	(12,133)	143,422
Loans to VO members written -off net of realisation	-	7,261
Decrease/(Increase) of other assets	(16,673)	(64,774)
	<u>411,932</u>	<u>459,437</u>

26 Loan disbursements and collections

(Amount in Taka 000)

	2003		2002	
	Disbursement for the year	Realisation for the year	Disbursement for the year	Realisation for the year
Rural credit borrowers	15,757,174	(14,500,390)	12,871,927	(12,169,960)
Urban credit borrowers	727,352	(792,396)	742,716	(698,491)
Hard-core poor borrowers	1,454,777	(953,030)	2,200,587	(2,141,704)
Microentrepreneurs borrowers	2,760,699	(1,864,666)	1,250,674	(842,496)
	<u>20,700,002</u>	<u>(18,110,482)</u>	<u>17,065,904</u>	<u>(15,852,651)</u>

27 Loans from other sources

(Decrease)/Increase in current other debts	(386,335)	119,335
Increase in long term other debts	168,268	(274,878)
	<u>(218,067)</u>	<u>(155,543)</u>

28 Other funds

Increase in current liabilities	41,790	55,090
Increase in donors fund	758	41,780
Decrease in capital fund	26,153	(3,699)
	<u>68,701</u>	<u>93,171</u>

29 Related party transactions

Other than transactions between the segments in the financial statements of BRAC, which in any case are eliminated in the presentation of the financial statements, there are no related party transactions or arrangements that may require disclosure for an understanding of the financial statements.



30 Maturity Analysis

The assets and liabilities of BRAC analyzed over the remaining period at the balance sheet date to contractual maturity is as follows:

(Amount in Taka 000)

Values refer to months	Up to 1 month	>1<3 month	>3<12 month	>12<60 month	>60 month	Total
Property and Assets						
Current Assets						
Cash, bank balances and short-term deposits	635,591	154,324	194,238	850,224	-	1,834,377
Receivables and other current assets	19,186	38,371	172,669	-	-	230,226
Loans to members	1,697,661	2,932,323	5,555,981	-	-	10,185,965
(Acc. provisions for doubtful loans & accts.)	-	-	(240,005)	-	-	(240,005)
Total Current Assets	2,352,438	3,125,018	5,682,883	850,224	-	12,010,563
Loans to members						
Regular	109,610	189,326	358,722	-	-	657,658
Non-performing	9,711	19,421	87,396	116,529	-	233,057
Renegotiated	20,826	41,651	156,192	197,843	-	416,512
(Acc. provisions for doubtful loans & accts.)	-	-	(305,863)	(203,908)	-	(509,771)
Net Loans outstanding	140,147	250,398	296,447	110,464	-	797,456
Net Fixed Assets						
Used in microfinance operations	11,964	23,925	107,663	574,204	717,754	1,435,510
Total Net Fixed Assets	11,964	23,925	107,663	574,204	717,754	1,435,510
Other Assets	5,424	6,904	31,067	163,719	-	207,114
Total Assets	2,509,973	3,406,245	6,118,060	1,698,611	717,754	14,450,643
Liabilities and Capital						
Current Liabilities						
PKSF Loan	29,167	96,533	698,433	-	-	824,133
Savings deposits	129,245	258,490	1,163,203	-	-	1,550,938
Others	31,722	63,443	285,496	-	-	380,661
Other Debts	12,057	25,000	66,151	-	-	103,208
Total Current Liabilities	202,191	443,466	2,213,283	-	-	2,858,940
Long -Term Liabilities						
Savings deposits	-	-	-	4,735,001	-	4,735,001
PKSF loan	-	-	-	1,910,767	33,333	1,944,100
Other debts	-	-	-	295,016	-	295,016
Total Long-Term Liabilities	-	-	-	6,940,784	33,333	6,974,117
Capital Fund						
Donor funds	-	-	-	1,799,457	-	1,799,457
Retained surplus	-	-	-	2,818,129	-	2,818,129
Total Capital Fund	-	-	-	4,617,586	-	4,617,586
Liabilities and Capital	202,191	443,466	2,213,283	11,558,370	33,333	14,450,643



**BRAC
MICROFINANCE PROGRAMME
FINANCIAL RATIO ANALYSIS**

(Numerical data in 000)

Sl. No.	Ratio	Formula	Purpose	2003 Calculation		2002 Calculation	
FINANCIAL SUSTAINABILITY RATIOS							
1	Return on Performing Assets	Total Income / Average Total Assets	Indicates financial productivity of credit services and investment activities	3,007,484 13,490,661	22.3%	2,544,904 11,917,478	21.4%
2	Financial Cost Ratio	Financial Cost / Average Total Assets	Shows cost of funds: affected by mix of net worth, soft and hard loans	462,490 13,490,661	3.4%	433,978 11,917,478	3.6%
3	Loan Loss Provision Ratio	Loan Loss Provision / Average Total Assets	Indicates provisioning requirements on loan portfolio for current period	367,824 13,490,661	2.7%	312,707 11,917,478	2.6%
4	Operating Cost Ratio	Operating Cost / Performing Assets	Key Indicator of efficiency of lending operations.	1,541,556 13,490,661	11.4%	1,410,403 11,917,478	11.8%
5	Operating Self-sufficiency	Financial Income / Total Cost	Shows the credit programs' ability to cover costs of performance with internally generated income	3,007,484 2,371,870	126.8%	2,544,778 2,157,088	118.0%
6	Savings Outstanding Ratio	Total Savings / Total Principal Outstanding	Shows the credit programs' ability to fund loans from its savings fund	6,285,939 11,493,192	54.7%	4,983,957 9,173,477	54.3%

LIQUIDITY RATIOS

1	Cash Position Indicator	Cash and Deposits due from Banks / Average Total Assets	Indicates ability to meet immediate cash needs	1,834,377 13,490,661	13.6%	2,215,191 11,917,478	18.6%
2	External Loan-to-Savings Deposits	External Net Loans / Total Deposits	Indicates dependency on volatile external loans rather than stable source (deposits)	3,166,457 6,285,939	50.4%	3,252,791 4,983,957	65.3%

OPERATING EFFICIENCY RATIOS

1	Cost per Unit of Money Lent	Operating Cost / Loan Disbursed	Indicates efficiency in disbursing loans (in monetary terms)	1,541,556 20,700,002	7.4%	1,410,403 17,065,904	8.3%
2	Cost per Loan Made	Operating Cost / Number of Loans Made	Indicates efficiency of disbursing loans (in terms of no. of borrowers).	1,541,556 3,009	512.32	1,410,403 2,687	524.81
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.	3,493 10	365	2,918 9	324
4	Portfolio per Credit Staff	Total Principal Outstanding / Number of Credit Staffs	Indicates potential financial productivity of credit staff.	11,493,192 10	1,149,319	9,173,477 9	1,019,275

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	648,887 11,493,192	5.6%	566,906 9,173,477	6.2%
2	Reserve Ratio	Loan Loss Reserve / Value of Outstanding Principal	Indicates adequacy of reserves in relation to portfolio	749,776 11,493,192	6.5%	651,757 9,173,477	7.1%



Financial Highlights

The figures shown below are taken from the audited financial statements of BRAC for the fiscal years ended December 31, 2003 and 2002. All balances have been stated in terms of the value of the Bangladeshi Taka.

	(Amount in Taka 000)	
	2003	2002
Results for the year		
Consolidated (with grant income)		
Total income	9,353,073	7,688,505
Total expenditure	8,628,603	7,249,635
Excess of income over expenditure surplus/(deficit)	724,470	438,870
Consolidated (without grant income)		
Total income	7,059,747	5,708,486
Total expenditure	8,628,603	7,249,635
Excess of income over expenditure surplus/(deficit)	(1,568,856)	(1,541,149)
Microfinance Operations		
Total income	3,007,484	2,544,904
Total expenditure	2,371,870	2,157,088
Excess of income over expenditure surplus/(deficit)	635,614	387,816
At the end of the year		
Cash, bank balances and short-term deposits	1,834,377	2,215,191
Total loans to members		
Loans to rural microcredit borrowers	8,070,608	7,074,912
Loans to urban microcredit borrowers	309,887	383,648
Loans to hard-core poor	1,391,003	889,256
Loans to enterprising borrowers	1,721,694	825,661
Savings deposits	6,285,939	4,983,957
Total long-term debt	2,239,116	2,361,648
Capital fund	4,617,586	3,955,061
Total assets	14,450,643	12,530,680
Returns		
Surplus(consolidated) as % of average capital fund	10.2%	6.6%
Surplus(consolidated) as % of average portfolio	7.0%	5.0%
Surplus(consolidated) as % of average total assets	3.8%	2.6%
Ratios		
Cumulative loan collection ratio on total dues	99.32%	99.27%
Loan collection ratio on current dues	98.04%	98.97%
Current ratio	4.20	3.91
Liquidity ratio	29%	44%
Debt/equity ratio	0.48	0.60
Capital adequacy ratio	37%	38%
Debt service cover ratio	1.70	2.35
General & administrative expenses as % of average portfolio	14.9%	16.2%
Total loan principal affected by arrears as % of outstanding portfolio (5 or more instalments payment missed)	5.60%	6.18%



Auditor's Compliance Certification on BRAC

We have audited the financial statements of BRAC for the year ended December 31, 2003. On the basis of our audit, we certify below the compliance of BRAC with the eligibility criteria to participate under Microfinance II, as provided for in the Subsidiary Loan Agreement between the Government of Bangladesh and PKSF dated January 31, 2001.

Eligibility Criteria	Audited Figures or Compliance (Taka 000)
(a) Minimum loan recovery rates, computed quarterly, based on the following:	
(i) 95% minimum cumulative loan collection ratio on total dues:	
Actual cumulative collections	94,488,041 = 99.32%
Cumulative collectibles	95,137,610
(ii) 92 to 100% minimum loan collection ratio on current dues (on running 12- months basis):	
Actual collections during the past 12 months on current dues	18,110,482 = 98.04%
Collectible on current dues	18,473,397
(b) Minimum liquidity ratio of 20%	29%
(c) Minimum current ratio of 1.5	4.22 : 1
(d) Minimum capital adequacy ratio of 20%	37%
(e) Minimum debt service cover ratio of 1.25	1.70 : 1
(f) Minimum rate of return on capital of 2%	15%

S. F. Ahmed & CO.
 Chartered Accountants
 Dhaka, May 12, 2004



Statement of Loans Outstanding by Component, Non-Performing Loans, Classification, and Provisions Required

(Amount in Taka 000)

Loan Classification, Aging of Arrears & % Provisions	Components	Outstanding Amount Taka	Amount of Provisions
Standard (Current, no arrears) (1%)	Rural microcredit borrowers	6,938,328	69,384
	Urban microcredit borrowers	281,300	2,813
	Hard core poor borrower	1,187,657	11,877
	Microentrepreneurs borrowers	1,681,592	16,816
	Sub-Total	10,088,877	100,889
Watchlist (1 - 30 days) (5%)	Rural microcredit borrowers	245,141	12,256
	Urban microcredit borrowers	6,803	340
	Hard core poor borrower	41,607	2,080
	Microentrepreneurs borrowers	6,957	348
	Sub-Total	300,508	15,025
Substandard (31 - 180 days) (20%)	Rural microcredit borrowers	524,668	104,933
	Urban microcredit borrowers	9,277	1,855
	Hard core poor borrower	87,833	17,567
	Microentrepreneurs borrowers	21,683	4,337
	Sub-Total	643,461	128,692
Doubtful (181 - 350 days) (75%)	Rural microcredit borrowers	180,642	135,483
	Urban microcredit borrowers	2,057	1,543
	Hard core poor borrower	31,504	23,628
	Microentrepreneurs borrowers	10,059	7,544
	Sub-Total	224,262	168,197
Loss (Over 350 days) (100%)	Rural microcredit borrowers	181,829	181,829
	Urban microcredit borrowers	10,449	10,449
	Hard core poor	42,402	42,402
	Microentrepreneurs borrowers	1,404	1,404
	Sub-Total	236,084	236,084
	Total	11,493,192	648,887



Statement of Loans Outstanding by Sub-Sector, Non-Performing Loans, Classification, and Provisions Required

(Amount in Taka 000)

Loan Classification, Aging of Arrears & % Provisions	Sub-Sector	Outstanding Amount Taka	Amount of Provisions Taka
Standard (Current, no arrears) (1%)	Agriculture	109,260	1,093
	Cottage Industry	39,199	392
	Fisheries	15,828	158
	Food Processing	346,600	3,466
	Health	748	7
	Housing	18,256	183
	Livestock and Poultry	351,876	3,519
	Miscellaneous	454,123	4,541
	Rural trading	6,730,139	67,302
	Rural Transport	41,718	417
	Sericulture	1,415	14
	UDP	281,300	2,813
	MELA	1,681,592	16,816
	Services	16,823	168
	All Sub-Sectors	10,088,877	100,889
Watchlist (1 - 30 days) (5%)	Agriculture	4,201	210
	Cottage Industry	3,849	192
	Fisheries	707	35
	Food Processing	19,152	958
	Health	22	1
	Housing	2,326	116
	Livestock and Poultry	13,042	652
	Miscellaneous	14,636	732
	Rural trading	226,976	11,348
	Rural Transport	1,145	57
	Sericulture	60	3
	UDP	6,803	340
	MELA	6,956	348
	Services	633	32
	All Sub-Sectors	300,508	15,025
Substandard (31 - 180 days) (20%)	Agriculture	10,922	2,184
	Cottage Industry	3,941	788
	Fisheries	2,741	548
	Food Processing	49,173	9,835
	Health	115	23
	Housing	5,346	1,069



Loan Classification Aging of Arrears & % Provisions	Sub-Sector	Outstanding Amount Taka	Amount of Provisions Taka
	Livestock and Poultry	49,392	9,878
	Miscellaneous	21,113	4,223
	Rural trading	465,574	93,116
	Rural Transport	2,347	469
	Sericulture	110	22
	UDP	9,277	1,855
	MELA	21,683	4,337
	Services	1,727	345
	All Sub-Sectors	643,461	128,692
Doubtful (181 - 350 days) (75%)	Agriculture	4,182	3,137
	Cottage Industry	576	432
	Fisheries	925	694
	Food Processing	29,913	22,435
	Health	31	23
	Housing	12,201	9,151
	Livestock and Poultry	16,687	12,515
	Miscellaneous	3,748	2,811
	Rural trading	142,875	107,155
	Rural Transport	606	455
	Sericulture	53	40
	BUF	2,057	1,543
	MELA	10,059	7,544
	Services	349	262
All Sub-Sectors	224,262	168,197	
Loss (Over 350 days) (100%)	Agriculture	15,976	15,976
	Cottage Industry	235	235
	Fisheries	10,700	10,700
	Food Processing	20,512	20,512
	Health	430	430
	Housing	-	-
	Livestock and Poultry	32,984	32,984
	Miscellaneous	33,088	33,088
	Rural trading	107,042	107,042
	Rural Transport	1,518	1,518
	Sericulture	288	288
	BUF	10,449	10,449
	MELA	1,404	1,404
	Services	1,458	1,458
All Sub-Sectors	236,084	236,084	
Total	11,493,192	648,887	



Statement of Renegotiated Loans

Program Component or Sub-Sector	Renegotiated Loans	
	Amount (Taka'000)	% of Total
Programme Component		
Rural microcredit borrowers	319,282	76.7%
Urban microcredit borrowers	6,961	1.7%
Hard core poor borrowers	73,874	17.7%
Microentrepreneurs borrowers	16,395	3.9%
All Borrowers	416,512	100.0%
Sub-Sectors		
Agriculture	9,049	2.2%
Cottage Industry	1,505	0.4%
Fisheries	2,751	0.7%
Food Processing	44,379	10.7%
Health	127	0.0%
Housing	1,740	0.4%
Livestock and Poultry	34,162	8.2%
Miscellaneous	12,417	3.0%
Rural Trading	284,136	68.2%
Rural Transport	1,647	0.4%
Sericulture	127	0.0%
UDP	6,961	1.7%
MELA	16,395	3.9%
Services	1,116	0.3%
All Sub-Sectors	416,512	100.0%



Statement of Loan Concentration

Geographical, Sub-Sectoral and Single Loan Concentration	Loans (Net of Provisions)	
	Amount (Taka'000)	% of Total
Name of Districts		
1. B.Barua	239,692	2.2%
2. Bagerhat	140,130	1.3%
3. Bandarban	14,206	0.1%
4. Barguana	75,154	0.7%
5. Barishal	182,398	1.7%
6. Bhola	70,076	0.7%
7. Bogra	270,912	2.5%
8. C.N. Gonj	113,745	1.1%
9. Chandpur	336,883	3.1%
10. Chittagong	272,150	2.5%
11. Chaudanga	215,503	2.0%
12. Comilla	323,389	3.0%
13. Cox's Bazar	117,239	1.1%
14. Dhaka	426,378	4.0%
15. Dinajpur	175,390	1.6%
16. Faridpur	197,840	1.8%
17. Feni	133,431	1.2%
18. Gaibandha	224,170	2.1%
19. Gazipur	223,647	2.1%
20. Gopalganj	161,106	1.5%
21. Hobigonj	117,660	1.1%
22. Jamalpur	151,049	1.4%
23. Jessore	258,390	2.4%
24. Jhalokhati	60,642	0.6%
25. Jhenaidah	181,721	1.7%
26. Joypurhat	186,211	1.7%
27. Khagrachhari	18,081	0.2%
28. Khulna	195,150	1.8%
29. Kishoregonj	251,287	2.3%
30. Kurigram	112,549	1.0%
31. Kusthia	148,371	1.4%
32. Lalmonirhat	81,361	0.8%
33. Laxmipur	42,462	0.4%
34. Madaripur	168,679	1.6%
35. Magura	121,370	1.1%
36. Manikgonj	311,320	2.9%
37. Meherpur	49,457	0.5%
38. Moulavi Bazar	126,221	1.2%
39. Munshigonj	114,124	1.1%
40. Mymensingh	208,359	1.9%
41. Narayanganj	124,678	1.2%



Geographical, Sub-Sectoral and Single Loan Concentration	Loans (Net of Provisions)	
	Amount (Taka' 000)	% of Total
42. Narshingdi	220,782	2.1%
43. Natore	169,775	1.6%
44. Nawgaon	211,000	2.0%
45. Netrokona	160,577	1.5%
46. Nilphamary	132,400	1.2%
47. Noakhali	127,387	1.2%
48. Noail	94,739	0.9%
49. Pabna	287,256	2.7%
50. Panchagar	82,166	0.8%
51. Patuakhali	86,123	0.8%
52. Pirojpur	135,380	1.3%
53. Rajbari	160,196	1.5%
54. Rajshahi	238,384	2.2%
55. Rangamati	32,287	0.3%
56. Rangpur	238,300	2.2%
57. Shariatpur	151,625	1.4%
58. Shatkhira	167,064	1.6%
59. Sherpur	172,426	1.6%
60. Sirajgonj	200,960	1.9%
61. Sunamgonj	134,670	1.3%
62. Sylhet	215,708	2.0%
63. Tangail	241,803	2.3%
64. Thakurgaon	139,327	1.3%
All Districts	10,743,416	100.0%
Sub-Sectors		
Agriculture	135,503	1.3%
Cottage Industry	44,811	0.4%
Fisheries	28,968	0.3%
Food Processing	436,250	4.1%
Health	1,263	0.0%
Housing	35,745	0.3%
Livestock and Poultry	434,966	4.0%
Miscellaneous	493,771	4.6%
Rural trading	7,192,824	67.0%
Rural Transport	44,374	0.4%
Sericulture	1,806	0.0%
UDP	257,387	2.4%
MELA	1,616,070	15.0%
Services	19,678	0.2%
All Sub-Sectors	10,743,416	100.0%
Loans Exceeding 10% of Capital Fund	N.A	N.A
[Enumerate Large Loans, if any]	N.A	N.A
Total of All Large Loans	N.A	N.A



Analysis of Entire Loan Portfolio

Information Obtained from Interviews	Applicability in Sample to:	
	No. of Borrowers	% of Borrowers
Borrowers with loans from other creditors	N/A	N/A
Creditors cited as having extended other loan(s)	N/A	N/A
Average amount of loans from other creditors	N/A	N/A
Purpose of loans from other creditors	N/A	N/A
Reasons for arrears		
Reduced income	22	4.21%
Fluctuating income	56	10.73%
Burdensome payments	2	0.38%
Multiple loans	0	0.00%
Drop-outs of members	4	0.77%
Hartals	0	0.00%
Floods	0	0.00%
Others (Reluctant)	0	0.00%
Borrowers' assesment after availing of loan		
Poorer	53	10.15%
Improved incomes	469	89.85%
No. of Borrowers in Total Loan Sample	522	N/A

Analysis of Findings:

Particulars	No of Borrowers	Comments
Current loan - No arrears	438	Improved incomes
Loans with 1 - 30 days past due	3	Improved incomes
Loans with 31 - 180 days past due	16	Improved incomes/poorer
Loans with 181 - 350 days past due	9	Improved incomes/poorer
Loans over 350 days past due	56	Improved incomes/poorer
	<u>522</u>	



Analysis of Non-Performing Loans

Information Obtained from Interviews	Applicability in Sample to:	
	No. of Borrowers	% of Borrowers
Borrowers with loans from other creditors	N/A	N/A
Creditors cited as having extended other loan(s)	N/A	N/A
Average amount of loans from other creditors	N/A	N/A
Purposes of loans from other creditors	N/A	N/A
Reasons for arrears		
Reduced income	3	6.00%
Fluctuating income	45	90.00%
Burdensome payments	0	0.00%
Multiple loans	0	0.00%
Drop-outs of members	2	4.00%
Hartals	0	0.00%
Floods	0	0.00%
Others (Dead)	-	-
Borrowers' assesment after availing of loan		
Poorer	46	92.00%
Improved incomes	4	8.00%
No. of Borrowers in Non-Performing Loan Sample	50	N/A



Sampling Methods for Loans and Deposits

BRAC has loans extended to and deposits taken from over three million borrowers and depositors. It would not be feasible or practical for us to audit all of the loans or even a large percentage of loans, given the large numbers involved. The loan and deposit population involves relatively insignificant individual loans and a fair degree of homogeneity. Therefore, the loans and deposits have common product and control characteristics. We have formulated a sampling method for choosing the loans and deposits, in a manner acceptable to BRAC management. The samples are reasonable to achieve the audit objectives. At the same time, we have given due recognition to the (a) geographic distribution and (b) grouping of micro credits for : (i) the mainstream rural poor; (ii) the urban poor; (iii) the hard core poor; and (iv) micro entrepreneurs. In addition, we have developed a sample of non-performing loans to determine (a) delinquency patterns by component and sub-sector, and (b) proximate and fundamental reasons for the rise in delinquencies. In developing the sampling method we have ensured that every item in the population has a known chance of selection, e.g. the use of statistically – valid random sampling.

