



S. F. AHMED & CO.
Chartered Accountants
Associate Firm of Ernst & Young

BRAC
Microfinance Programme
Audited Financial Statements
December 31, 2004

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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, 2004 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 material respects, the financial position of BRAC at December 31, 2004, 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
S. F. Ahmed & Co.
Chartered Accountants
Dhaka, Bangladesh

April 25, 2005





Draka, April 25, 2005

BRAC
Chairperson, Governing Body

BRAC
Executive Director

The accompanying notes form an integral part of this statement.

Notes	2004				2003			
	Micro	Social	Commercial	Consolidated	Micro	Social	Commercial	Consolidated
Property and Assets								
12	1,922,363	2,243,437	21,083	4,186,883	1,834,377	640,181	(53,030)	2,421,528
	Cash, bank balances and short-term deposits							
13	299,924	2,095,982	547,303	2,943,209	230,226	1,706,591	414,172	2,350,989
	Receivables and other current assets							
15(a)	12,916,193	-	-	12,916,193	10,185,965	-	-	10,185,965
14(a)	(667,058)	-	-	(667,058)	(240,005)	-	-	(240,005)
	Loans to members (Acc. provisions for doubtful loans & accounts)							
14, 15(b), 15(c), 15(d)	849,167	308,372	-	1,157,539	657,658	-	-	657,658
	Regular							
15(c)	308,372	-	-	308,372	233,057	-	-	233,057
	Non-performing							
15(d)	417,807	-	-	417,807	416,512	-	-	416,512
	Renegotiated (Acc. provisions for doubtful loans & accounts)							
14(b)	(588,382)	-	-	(588,382)	(509,771)	-	-	(509,771)
	Net Loans outstanding							
	986,964	-	-	986,964	797,456	-	-	797,456
	Investment in securities and others							
	-	210,594	-	210,594	-	430,907	-	430,907
	Investment in related undertakings							
	-	991,809	-	991,809	-	887,104	-	887,104
	Net Fixed Assets							
17	1,449,103	-	-	1,449,103	1,435,510	-	-	1,435,510
	Used in microfinance operations							
	-	2,421,422	-	2,421,422	-	2,057,981	-	2,057,981
	Used in social development operations							
	-	-	206,759	206,759	-	-	222,228	222,228
	Used in commercial operations							
16	1,449,103	2,421,422	206,759	4,077,284	1,435,510	2,057,981	222,228	3,715,719
	Total Net Fixed Assets							
	242,381	73,062	870	316,313	207,114	37,076	895	245,085
	Other Assets							
	17,149,870	8,036,306	776,015	25,962,191	14,450,643	5,759,840	584,265	20,794,748
	Total Property and Assets							
Liabilities and Capital								
18(a)	709,933	-	-	709,933	824,133	-	-	824,133
	PRSF Loan							
19(a)	1,614,325	-	-	1,614,325	1,550,938	-	-	1,550,938
	Savings deposits							
20	463,274	1,159,604	79,755	1,702,633	380,661	656,560	65,640	1,102,861
	Others							
21(a)	812,396	2,210,997	200,000	3,223,393	103,208	681,181	120,000	904,389
	Other debts							
	3,599,928	3,370,601	279,755	7,250,284	2,858,940	1,337,741	185,640	4,382,321
	Total Current Liabilities *							
18(b)	1,588,333	-	-	1,588,333	1,944,100	-	-	1,944,100
	Long-term Liabilities							
19(b)	6,042,763	-	-	6,042,763	4,735,001	-	-	4,735,001
	Savings deposits							
21(b)	737,379	1,992,213	68,386	2,797,978	295,016	2,010,908	87,187	2,393,111
	Other debts							
	8,368,475	1,992,213	68,386	10,429,074	6,974,117	2,010,908	87,187	9,072,212
	Total Long-Term Liabilities							
	1,830,572	446,420	-	2,276,992	1,799,457	275,437	-	2,074,894
	Capital Fund							
	1,830,572	446,420	-	2,276,992	1,799,457	275,437	-	2,074,894
	Donor funds							
	3,350,895	2,227,072	427,874	6,005,841	2,818,129	2,135,754	311,438	5,265,321
	Retained surplus							
	5,181,467	2,673,692	427,874	8,282,833	4,617,586	2,411,191	311,438	7,340,215
	Total Capital Fund							
	17,149,870	8,036,306	776,015	25,962,191	14,450,643	5,759,840	584,265	20,794,748
	Total Liabilities and Capital							

BRAC
Balance Sheet
As at December 31, 2004

(Amount in Taka '000)

BRAC
Statement of Income and Expenditure
for the year ended December 31, 2004

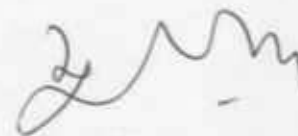
(Amount in Taka' 000)

Notes	2004				2003				
	Micro Finance	Social Development	Commercial Projects	Consolidated	Micro Finance	Social Development	Commercial Projects	Consolidated	
Income :									
Transfers from Donor funds (Operation)	22	277	3,437,991	-	3,438,268	346	2,292,980	-	2,293,326
Service charges on loan	3	3,610,152	-	-	3,610,152	2,882,473	-	-	2,882,473
Interest on Short-Term Deposits	4	104,155	266,546	-	370,701	129,378	87,135	-	216,513
Income from Commercial Activities		-	-	1,585,220	1,585,220	-	-	1,505,708	1,505,708
Income from Programme Support		-	2,336,960	-	2,336,960	-	2,251,326	-	2,251,326
Other income - Internal		-	119,200	(31,222)	87,978	-	116,335	(27,863)	88,472
Other income		-	84,784	7,953	92,737	-	106,402	2,797	109,199
Total Income		3,714,584	6,245,481	1,561,951	11,522,016	3,012,197	4,854,178	1,480,642	9,347,017
Expenditures:									
General and Administrative Expenses:									
Manpower compensation	5	1,458,564	1,626,384	112,099	3,197,047	1,130,185	1,482,492	111,676	2,724,353
Training, workshops and seminars	6	29,159	499,010	8	528,177	28,700	264,427	150	293,277
Occupancy expenses	7	58,265	240,827	51,110	350,202	66,388	209,079	54,521	320,988
Depreciation	17	81,184	111,577	40,067	232,828	72,914	113,140	39,582	225,636
Other general & admin. Expenses	8	226,595	1,219,700	36,567	1,482,862	248,082	711,580	40,379	1,000,041
Total General and Administrative Exp.		1,853,767	3,697,298	239,851	5,790,916	1,546,269	2,780,718	246,308	4,573,295
Cost Related to Commercial Activities		-	-	1,165,938	1,165,938	-	-	1,078,651	1,078,651
Cost related to Program Support Enterprises		-	2,112,066	-	2,112,066	-	2,019,329	-	2,019,329
Financial Cost of Operation									
Borrowing cost									
PKSF loan	9	185,068	-	-	185,068	149,793	-	-	149,793
Other debts	10	68,210	162,758	22,283	253,251	32,329	105,648	15,310	153,287
Savings deposits	11	356,527	-	-	356,527	280,368	-	-	280,368
Provisions for doubtful loans & accounts	14	718,246	-	-	718,246	367,824	-	-	367,824
Total Financial Cost of Operation		1,328,051	162,758	22,283	1,513,092	830,314	105,648	15,310	951,272
		3,181,818	5,972,122	1,428,072	10,582,012	2,376,583	4,905,695	1,340,269	8,622,547
Surplus/(deficit) of program income over expenditure		532,766	273,359	133,879	940,004	635,614	(51,517)	140,373	724,470
Surplus of income over expenditure before taxation		532,766	273,359	133,879	940,004	635,614	(51,517)	140,373	724,470
Provision for taxation on commercial projects		-	-	-	-	-	-	-	-
Net Surplus of income over expenditure transferred to Capital fund (Retained Surplus)		532,766	273,359	133,879	940,004	635,614	(51,517)	140,373	724,470

The accompanying notes form an integral part of this statement.



Chairperson, Governing Body
BRAC
Dhaka, April 25, 2005



Executive Director
BRAC



BRAC
Statement of Changes in Equity
for the year ended December 31, 2004

(Amount in Taka '000)

Notes	Donor Funds				Retained Surplus	Total	
	Grants received in advance account	Investment in fixed assets	Investment in loan	Total			
Balance at January 01, 2003	22,434	295,089	1,481,176	1,798,699	2,156,362	3,955,061	
Donation received during the year	22	1,104	-	-	1,104	-	1,104
Transferred to deferred income: Investment in loan		(13,041)	-	13,041	-	-	-
Transferred to Statement of income and expenditure during the year		(346)	-	-	(346)	-	(346)
Adjustment during the year		-	-	-	-	26,153	26,153
Net surplus for the year 2003		-	-	-	-	635,614	635,614
Balance at December 31, 2003		10,151	295,089	1,494,217	1,799,457	2,818,129	4,617,586
Balance at January 01, 2004		10,151	295,089	1,494,217	1,799,457	2,818,129	4,617,586
Donation received during the year	22	31,392	-	-	31,392	-	31,392
Transferred to deferred income: Investment in fixed assets		(517)	517	-	-	-	-
Investment in loan		(20,445)	-	20,445	-	-	-
Transferred to Statement of income and expenditure during the year		(277)	-	-	(277)	-	(277)
Net surplus for the year 2004		-	-	-	-	532,766	532,766
Balance at December 31, 2004		20,304	295,606	1,514,662	1,830,572	3,350,895	5,181,467



BRAC
Statement of Cash flows
for the year ended December 31, 2004

(Amount in Taka' 000)

Notes	2004				2003				
	Micro Finance	Social Development	Commercial Projects	Consolidated	Micro Finance	Social Development	Commercial Projects	Consolidated	
Cash flows from operating activities									
		532,766	273,359	133,879	940,004	635,614	(51,517)	140,373	724,470
Excess of income over expenditures									
Other cash from operating activities & items not involving cash	23	694,465	93,473	(220,274)	567,664	411,932	82,803	(159,536)	335,199
Loan disbursements for rural credit	24	(19,698,259)	-	-	(19,698,259)	(15,757,174)	-	-	(15,757,174)
Loan disbursements for urban credit	24	(977,948)	-	-	(977,948)	(727,352)	-	-	(727,352)
Loan disbursements for hard-core poor	24	(1,092,508)	-	-	(1,092,508)	(1,454,777)	-	-	(1,454,777)
Loan disbursements for microentrepreneurs	24	(4,132,800)	-	-	(4,132,800)	(2,760,699)	-	-	(2,760,699)
Loan collections from rural credit	24	17,048,634	-	-	17,048,634	14,500,390	-	-	14,500,390
Loan collections from urban credit	24	733,590	-	-	733,590	792,396	-	-	792,396
Loan collections from hard-core poor	24	1,513,661	-	-	1,513,661	953,030	-	-	953,030
Loan collections from microentrepreneurs	24	3,394,701	-	-	3,394,701	1,864,666	-	-	1,864,666
Net Cash provided by/(used in) operating activities		(1,983,698)	366,832	(86,395)	(1,703,261)	(1,541,974)	31,286	(19,163)	(1,529,851)
Cash flows from investing activities									
Acquisition of fixed assets	17	(94,777)	(543,167)	15,494	(622,450)	(123,189)	(151,057)	20,931	(253,315)
Sale of fixed assets	17	-	23,322	-	23,322	-	54,299	-	54,299
Short-term deposits purchase	12	267,128	(2,211,898)	-	(1,944,770)	70,000	7,583	-	77,583
Investment in related companies		-	(31,851)	-	(31,851)	-	(434,777)	-	(434,777)
Other investments		-	220,313	-	220,313	-	(116,432)	-	(116,432)
Net Cash provided by/(used in) investing activities		172,351	(2,543,281)	15,494	(2,355,436)	(53,189)	(640,384)	20,931	(672,642)
Cash flows from financing activities									
Loans from PKSF	18	(469,967)	-	-	(469,967)	131,733	-	-	131,733
Loans from other sources	25	1,151,551	1,210,518	80,000	2,442,069	(218,067)	1,231,087	37,434	1,050,454
Saving deposits	19	1,371,149	-	-	1,371,149	1,301,982	-	-	1,301,982
Other funds	26	113,728	795,615	(25,155)	884,188	68,701	(241,298)	(27,515)	(200,112)
Net Cash provided by/(used in) financing activities		2,166,461	2,006,133	54,845	4,227,439	1,284,349	989,789	9,919	2,284,057
Net increase in cash and bank balances		355,114	(170,316)	(16,056)	168,742	(310,814)	380,691	11,687	81,564
Cash in hand & at banks, beginning of the year		515,591	(128,478)	70,155	457,268	826,405	(509,169)	58,468	375,704
Cash in hand and at banks, end of the year		870,705	(298,794)	54,099	626,010	515,591	(128,478)	70,155	457,268



BRAC
Notes to Financial Statements
December 31, 2004

1. 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 programs that cover the areas of health, education, credit, employment and training for the poor people of Bangladesh. BRAC carries out licensed banking activities through the 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.

2. Summary of significant accounting policies:

BRAC prepares its financial statements on a going concern basis, under the historical cost convention, except for investments in shares in listed companies classified within investment in securities and others, which are stated at fair value. 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 2.10, 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 organisations that, in some instances may bear names with resemblance to BRAC, viz BRAC University and BRAC Afghanistan. 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. Summary of significant accounting policies (contd.)

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 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 and impairment losses. 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 - 20
Equipment	15 - 33.3
Vehicles	20
Bicycles	20

2.5 Loans to VO Members

BRAC's activities include providing micro-credit loans to group members without collateral, on a service charge basis under various programs. Loans inclusive of service charge are stated net of provision for loan losses.



2. Summary of significant accounting policies (contd.)

2.6 Provision for Loan Losses

BRAC generally provides for loan losses based on 2% of loan disbursements made. Management regularly assesses the adequacy of the loan loss provision based on the age of the loan portfolio. At the year end, BRAC calculates required provision for loan losses based on the loan classification and provisioning methodology which is shown below and any adjustments, if required are made and accounted for in the financial statements for the year.

Loan Classification	Days in Arrears	Provision required
Standard	Current (no arrears)	2%
Watchlist	1 - 30	5%
Substandard	31 - 180	20%
Doubtful	181 - 350	75%
Loss	Over 350	100%

The following additional provisions have been made in 2004 to take account of the possible effects of widespread devastating floods during the year:

- Additional 1% in respect of loans classified as "Standard"
- A general provision of 1% of loan amounts disbursed during the year.

2.7 Loans written off

Loans within their maturity period are classified as "Current loans". Loans which remain outstanding after one month of their maturity period are considered as "Late loans". Late loans which remain unpaid after one year is classified as "Non- Interest Bearing Loan"(NIBL). The total amount of NIBL, which are considered bad and have no possibility of recovery, is referred to the Governing Body of BRAC for approval of write off, generally within one year from the date when a loan is transferred to NIBL. Generally loans are written off twice a year i.e. July and December. Any collections realised from loans previously written off are credited to the statement of income and expenditure.

2.8 Provision for Liabilities

Provisions for liabilities are recognised when BRAC has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

2.9 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 these 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. Provision is also made for any impairment if the carrying amount of an investment exceeds its recoverable amount.



2. Summary of significant accounting policies (contd.)

2.10 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 2.9 together with related undertakings in which the effective equity interests are between 20% and 50%.

2.11 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.

After initial recognition, investments in shares of listed companies are subsequently measured at fair value, with unrealized gains or losses recognized in the statement of income and expenditure. Fair value is generally determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date, adjusted for transaction costs necessary to realize the asset.

Other long-term investments which are intended to be held to maturity, such as debentures and private debt securities, are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost apart from the amortization process which is dealt with through the statement of income and expenditure, any gain or loss is recognized in the statement of income and expenditure when the investment is disposed of or suffers a permanent diminution in value.

2.12 Accounts Receivable

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

2.13 Inventories

Retail inventories are stated at cost based on selling price less average mark-up, and other inventories are stated at cost. Cost is determined using the weighted average basis. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Provision is made for obsolete or slow moving items, to reduce their carrying amounts to net realizable value.

2.14 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 utilized for the purchase 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.

2.15 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. Summary of significant accounting policies (contd.)

2.16 Self - Insurance Funds

BRAC has created a self-insurance fund to cover the risks 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 within 'Other long term liabilities' 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 within 'Other long term liabilities' 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.

2.17 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 within 'Other long term liabilities' 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.

2.18 Borrowing Costs

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.

2.19 Impairment of Assets

At each balance sheet date, BRAC reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use.

An impairment loss is recognised as an expenses in the statement of income and expenditure immediately. Reversal of impairment losses recognised in prior years in record when the impairment losses recognised for the asset no longer exists or have decreased.



2. Summary of significant accounting policies (contd.)

2.20 Financial Instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instrument.

a) Investments in Related Undertakings

Investments in related undertakings are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with note 2.19

b) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified and an estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

c) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

d) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transactions costs.

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

2.21 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 31)

"Segmental Financial Information and Statement of Functional Expenses have been set out in Notes 26 & 27 in the combined financial statements of BRAC for the year ended December 31, 2004 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, 2004 audited by S.F.Ahmed & Co. in terms of the requirements laid down by IDA and PKSf would result in indicative figures for Microfinance Programme activities which have been included with the figures shown in column "Temporarily Restricted - Development Projects" in Notes stated above.

2.22 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.



(Amount in Taka' 000)

3 Service charges on loan

	2004	2003
Rural microcredit borrowers	2,655,789	2,085,749
Urban microcredit borrowers	107,123	113,105
Hard core poor	305,299	352,696
Enterprising borrowers	541,941	330,923
	<u>3,610,152</u>	<u>2,882,473</u>

Interest is accrued on (i) Current loan (Note-15a) and (ii) Regular loan (Note-15b) and (iii) Renegotiated loan (Note- 15d) 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	Principal (Taka)		Unpaid interest (Taka)		Unaccrued interest (Taka)	
	2004	2003	2004	2003	2004	2003
Principal amount of non-accruing loans						
Rural credit	254,399	180,891	33,173	23,787	20,110	14,319
Urban credit	15,248	10,449	1,999	1,349	1,194	814
Hard-core poor	20,146	41,717	2,645	5,544	1,594	3,273
Ultra hard-core poor	-	-	-	-	-	-
Microentrepreneurs	18,579	-	1,912	-	1,408	-
Total	308,372	233,057	39,729	30,680	24,306	18,406



		(Amount in Taka '000)	
		2004	2003
4	Interest on Short -Term Deposits		
	Fixed deposits	104,155	129,378
		<u>104,155</u>	<u>129,378</u>
5	Manpower compensation		
	Salaries and benefits	1,345,994	1,016,324
	Travelling and transportation	112,570	113,861
		<u>1,458,564</u>	<u>1,130,185</u>
6	Training , workshops and seminars		
	Staff training and development	29,159	28,700
		<u>29,159</u>	<u>28,700</u>
7	Occupancy expenses		
	Office rent	33,248	39,049
	Utilities (Electricity, Gas , Water, Telephone)	25,017	27,339
		<u>58,265</u>	<u>66,388</u>
8	Other general and administrative expenses		
	Printing and office stationery	38,717	46,098
	Maintenance	31,857	48,456
	General expenses	30,457	43,846
	Data processing	36,144	56,857
	Insurance benefits paid to VO members	29,425	26,463
	Provision for emergency fund	59,995	26,362
		<u>226,595</u>	<u>248,082</u>
9	Borrowing cost : PKSF loan		
	Rural microcredit borrowers	173,964	122,830
	Hard core poor	11,104	26,963
		<u>185,068</u>	<u>149,793</u>
10	Borrowing cost : Other debts		
	Interest on loans from:		
	Agrani Bank TM	52,827	12,096
	Bangladesh Krishi Bank	5,143	8,567
	Sonali Bank	-	5,397
	Govt. of Bangladesh	751	4,673
	RAKUB	2,715	-
	HSBC	6,375	-
	Standard Chartered Bank (SCB)	399	1,596
		<u>68,210</u>	<u>32,329</u>
11	Borrowing cost : Savings deposits		
	Interest on savings deposits	<u>356,527</u>	<u>280,368</u>

The average rate of interest paid in respect of savings deposits by VO members was 6% (2003: 6%) per annum.



(Amount in Taka '000)

12 Cash, bank balances and short-term deposits

	2004	2003
Cash in hand	12,060	18,049
Cash at banks	858,645	497,542
Fixed deposits	1,051,658	1,318,786
	<u>1,922,363</u>	<u>1,834,377</u>

Break-up of Fixed deposits is as follows:

Bangladesh Krishi Bank	57,561	45,491
Southeast Bank Ltd	300,000	300,000
Bank of Asia	200,000	200,000
Delta BRAC Housing Financing Corp. Ltd	170,224	170,224
National Housing Finance and Investment Ltd	-	60,000
BRAC Bank Ltd.	143,873	251,741
Industrial Promotion Development Corporation	180,000	180,000
Mercantile Bank	-	111,330
	<u>1,051,658</u>	<u>1,318,786</u>

13 Receivables and other current assets

Advances :		
Employees	15,776	9,960
Suppliers	4,940	7,838
Prepayments	34,622	29,753
Current accounts with field offices	55,656	23,237
Inventories	40,150	32,551
Interest receivable on fixed deposits	89,665	76,195
Interest receivable on Vo members loan (Note- 15)	138,580	112,393
	<u>379,389</u>	<u>291,927</u>
Less: Transferred to other assets (Note- 16)	(79,465)	(61,701)
	<u>299,924</u>	<u>230,226</u>

14 Provisions for doubtful loans & accounts

Provision for doubtful loans -Current	(667,058)	(240,005)
Provision for doubtful loans -Long Term	(588,382)	(509,771)
	<u>(1,255,440)</u>	<u>(749,776)</u>

a) Provisions for doubtful loans - Current

Opening balance	(240,005)	(137,406)
Add: Provision for the year	(718,246)	(367,824)
Less: Transferred to long term [Note- 14(b)]	291,193	265,225
Closing balance	<u>(667,058)</u>	<u>(240,005)</u>

b) Provisions for doubtful loans - Long Term

Opening balance	(509,771)	(514,351)
Add: Transferred from current [Note- 14(a)]	(291,193)	(265,225)
Less: Loans write-off	212,582	269,805
Closing balance	<u>(588,382)</u>	<u>(509,771)</u>

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

Rural microcredit borrowers	162,362	212,525
Urban microcredit borrowers	8,503	8,717
Hard core poor borrowers	41,717	48,563
	<u>212,582</u>	<u>269,805</u>



b) Provisions for doubtful loans - Long Term (contd.)

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 868,079 details of which are given below:

(Amount in Taka '000)				
Loan Classification	Days in Arrears	Principal Outstanding As on December 31, 2004	Rate of Provision	Required Provisions
Standard	Current	12,834,558	1%	128,346
Watchlist	1 - 30	460,139	5%	23,007
Substandard	31 - 180	713,859	20%	142,772
Doubtful	181 - 350	149,498	75%	112,124
Loss	Over 350	333,485	100%	333,485
		14,491,539		739,734

2004

Total Current Loan loss reserve	1,255,440
Total required loan loss reserve	739,734
BRAC Current loan loss reserve higher than the required reserve	515,706

Based on the above, required reserve to Taka 739,734 is considered adequate. BRAC current reserve is 41% at Taka 1,255,440 and is thus more than adequate.

15 Loans to village organization members :

(Amount in Taka 000)

	2004			
	Principal Outstanding	Service charge receivable	Loan loss provision	Total Taka
Opening balance	11,493,192	112,393	(749,776)	10,855,809
Additions	25,901,515	3,610,151	(718,246)	28,793,420
Realisations	(22,690,586)	(3,546,833)	-	(26,237,419)
Write-off	(212,582)	(37,131)	212,582	(37,131)
Closing balance	14,491,539	138,580	(1,255,440)	13,374,679

Loans to VO members bear annual service charges as follows:

Microcredit	15% flat
Housing loans	10% flat

Repayments are made in weekly/monthly installments.

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



(Amount in Taka 000)

a) Loans to members (Current portion)

	2004	2003
Rural microcredit borrowers	9,882,596	7,478,833
Urban microcredit borrowers	515,440	291,216
Hard core poor borrowers	821,854	1,275,412
Enterprising borrowers	1,696,303	1,140,504
	<u>12,916,193</u>	<u>10,185,965</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	111,586	91,602
Urban microcredit borrowers	2,434	1,261
Hard core poor borrowers	8,160	-
Enterprising borrowers	726,987	564,795
	<u>849,167</u>	<u>657,658</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	12,834,363	10,200,288
Loans with one or more installment payments missed	930,997	643,335
	<u>13,765,360</u>	<u>10,843,623</u>
Less: Transferred to loans to member under current assets [Note- 15(a)]	12,916,193	10,185,965
	<u>849,167</u>	<u>657,658</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	254,399	180,891
Urban microcredit borrowers	15,248	10,449
Hard core poor	20,146	41,717
Enterprising borrowers	18,579	-
	<u>308,372</u>	<u>233,057</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:



c) Loans to members : Non-performing (contd)

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 past 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

Rural microcredit borrowers
Urban microcredit borrowers
Hard core poor
Enterprising borrowers

(Amount in Taka 000)	
2004	2003
310,089	319,282
12,620	6,961
77,173	73,874
17,925	16,395
417,807	416,512

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.

16 Other Assets

Motor cycle loan to staff
Transferred from receivables and other current assets (Note- 13)

(Amount in Taka 000)	
2004	2003
162,916	145,413
79,465	61,701
242,381	207,114



17. Fixed Assets

(Amount in Taka' 000)

Group of fixed assets	Cost *				Depreciation				Written down value	Written down value
	Opening balance 01/01/2004	Additions during the year	Transfer/ Disposal during the year	Closing balance 31/12/2004	Opening balance 01/01/2004	Charges during the year	Transfer/ Disposal during the year	Closing Balance 31/12/2004	31/12/2004	31/12/2003
Land	616,520	45,673	-	662,193	-	-	-	-	662,193	616,520
Buildings	842,463	14,152	-	856,615	187,311	31,737	-	219,048	637,567	655,152
Furniture & fixtures	136,982	20,966	-	157,948	75,855	20,535	-	96,390	61,558	61,127
Equipment	184,252	11,099	3,265	198,616	82,941	28,790	1,959	113,690	84,926	101,311
Vehicles	12,400	-	(582)	11,818	12,369	-	(551)	11,818	0	31
Bicycles	9,356	1,612	-	10,968	7,987	122	-	8,109	2,859	1,369
Total year 2004	1,801,973	93,502	2,683	1,898,158	366,463	81,184	1,408	449,055	1,449,103	1,435,510
Total year 2003	1,676,435	111,793	13,745	1,801,973	291,200	72,914	2,349	366,463	1,435,510	



18 Liabilities: PKSF Loan

Current Liabilities: PKSF Loan
 Long-Term Liabilities: PKSF Loan

(Amount in Taka 000)	
2014	2013
708,833	824,133
<u>1,888,133</u>	<u>1,944,100</u>
<u>2,596,966</u>	<u>2,768,233</u>

Term wise movement of PKSF loan is as follows:

a) Current Liabilities: PKSF Loan

Opening balance
 Add : Transferred from long-term liabilities : PKSF loan (Note b)
 Less: Repaid to PKSF during the year

824,133	401,669
333,767	840,800
(169,067)	(418,267)
<u>708,833</u>	<u>824,133</u>

Closing balance

b) Long-Term Liabilities: PKSF Loan

Opening balance
 Add: Raised from PKSF during the year
 Less : Transfer to Current liabilities : PKSF loan (Note a)

1,944,100	2,234,900
200,000	350,000
(355,767)	(1840,800)
<u>1,988,333</u>	<u>1,944,100</u>

Closing balance

- i) Loan from PKSF of Tk.3,401,000 was obtained to support the credit programme and bears service charge at 3% to 7% (2013: 3% to 7%) per annum. Each drawdown is repayable in ten equal half yearly installments.
- ii) Loan from PKSF of Tk. 292,000 was obtained to support the Participatory Livestock Development Programme and bears service charge at 6.25% (2013: 6.25%) per annum. Each drawdown is repayable in ten equal quarterly installments.

A table showing " loan principal balance", "average annual balance" and " annual interest expenses" in respect of PKSF loan is given below:

Year	Loan principal balance	Average balance	Annual interest expenses
2014	2,298,366	2,453,249	185,048
2013	2,768,233	2,702,368	149,701

All repayment obligations in respect of PKSF loan have been met and no amounts were in arrears as at December 31, 2014.

19 Liabilities: Savings deposits

Current Liabilities: Savings deposits
 Long-Term Liabilities: Savings deposits

(Amount in Taka 000)	
2014	2013
1,614,321	1,592,135
<u>8,042,767</u>	<u>4,735,001</u>
<u>9,657,088</u>	<u>6,327,136</u>

VO members' savings deposits are analyzed as follows:

Compulsory savings
 Own savings

2,405,321	1,992,135
5,251,767	4,735,001
<u>9,657,088</u>	<u>6,327,136</u>



Term wise movement of Saving deposits is as follows:

	(Amount in Taka 000)	
	2004	2003
a) Current Liabilities: Savings deposits		
Opening balance	1,550,938	1,525,682
Add: Transferred from long term savings (Note b)	2,689,000	2,650,000
Less: Withdrawals for the year	(2,625,613)	(2,624,744)
Closing balance	1,614,325	1,550,938
b) Long -Term Liabilities: Savings deposits		
Opening balance	4,735,001	3,458,275
Addition during the year	3,996,762	3,926,726
Less: Transferred to current liabilities (Note a)	(2,689,000)	(2,650,000)
Closing balance	6,042,763	4,735,001

The average rate of interest paid in respect of savings deposits by VO members was 6% (2003: 6%) per annum.

BRAC has already initiated two types of savings deposits namely (a) Own savings and (b) Compulsory savings, with a view to facilitating and encouraging savings by people in rural areas.

a) Own savings:

Each VO member deposits a minimum amount of Tk.5 in a weekly meeting. The amount to be deposited weekly is fixed by the VO member at the beginning meeting of the year. A member may deposit a maximum amount of Tk.20 per week.

b) Compulsory savings

When loans are disbursed to VO members, 5% of the loan sanctioned is deducted at source at inception and recorded under "saving deposits" of the VO member loan. This deducted amount is considered as "deposit against loan disbursed"

Rules for Savings withdrawals:

The entire amount of savings deposits of a VO member will be refunded when the member retires or becomes terminated from membership.

After one year of becoming a VO member 50% of savings deposits may be withdrawn to meet special requirement (such as marriage of offspring, illness, etc)

Loan outstanding balance including service charge on loan is to be fully repaid by a VO member before withdrawal of entire amount deposited to savings deposits inclusive of interest earned.

If the savings deposit balance of a VO member is less than Tk 2,000 after part withdrawals, no interest will be paid on remaining balance. Moreover, if a VO member withdraws more than two times in a year from savings deposits, no interest will be paid for that financial year.

	(Amount in Taka 000)	
	2004	2003
20 Current Liabilities: Others		
Liabilities for expenses	278,490	256,409
Emergency fund	152,695	92,700
VO members current and project accounts	32,089	31,552
	463,274	380,661



(Amount in Taka 000)

2004	2003
812,396	103,208
737,379	295,016
<u>1,549,775</u>	<u>398,224</u>

21 Liabilities: Other debts

Current Liabilities: Other Debts
 Long -Term Liabilities: Other Debts

Term wise movement of other debts is as follows:

a) Current Liabilities: Other debts

(Amount in Taka 000)

Particulars	2004				2003
	Opening balance (01/01/2004)	Transferred from long term debts	Repaid during the year	Closing Balance (31/12/2004)	
Agrani Bank	60,000	340,000	(60,000)	340,000	60,000
Government of Bangladesh	6,151	67,006	(9,653)	63,504	6,151
Bangladesh Krishi Bank	12,057	109,557	(12,722)	108,892	12,057
Standard Chartered Bank	25,000	-	(25,000)	-	25,000
HSBC	-	300,000	-	300,000	-
	<u>103,208</u>	<u>816,563</u>	<u>(107,375)</u>	<u>812,396</u>	<u>103,208</u>

b) Long -Term Liabilities: Other debts

(Amount in Taka 000)

Particulars	2004				2003
	Opening balance (01/01/2004)	Received during the year	Transferred to current other debts	Closing Balance (31/12/2004)	
Agrani Bank	240,000	500,000	(340,000)	400,000	240,000
Government of Bangladesh	15,921	69,353	(67,006)	18,268	15,921
BKB	39,095	312,000	(109,557)	241,538	39,095
RAKUB	-	77,573	-	77,573	-
HSBC	-	300,000	(300,000)	-	-
	<u>295,016</u>	<u>1,258,926</u>	<u>(816,563)</u>	<u>737,379</u>	<u>295,016</u>

The terms of individual loan are detailed below:

- Loan from Agrani Bank was obtained to support credit programme and bears interest at 9.5% (2003: 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 was obtained to support the credit programme and bears interest at 8% (2003: 8%) per annum and is repayable in twenty equal half yearly installments, starting from January 01, 1998 and ending on July 01, 2007.
- Loan from RAKUB was obtained for operation of credit activity among small farmers, and bears interest at 6% -7% per annum and is repable within 83 months from the date of disbursement in March 2006.
- Loan from HSBC was obtained to finance working capital requirements, and bears interest at 8.5% per annum and is repable by September 2005.



21 Liabilities: Other debts (contd.)

A table showing "loan principal balance", "average annual balance" and "annual interest expenses" in respect of term loan is given below:

Name of Institute	Loan principal balance as at December		Average annual balance		Annual interest expenses	
	2004	2003	2004	2003	2004	2003
Agrani Bank	740,000	300,000	520,000	186,000	52,827	12,096
Government of Bangladesh	81,772	22,072	51,922	39,410	751	4,673
BKB	350,430	51,152	200,791	56,848	5,143	8,567
RAKUB	77,573	-	38,787	-	2,715	-
HSBC	300,000	-	150,000	-	6,375	-
Sonali Bank	-	-	-	62,500	-	5,397
Standard Chartered Bank	-	25,000	12,500	162,500	399	1,596
Total	1,549,775	398,224	974,000	507,258	68,210	32,329

All repayment obligations in respect of above debts have been met and no amounts were in arrears as at December 31, 2004.

22 Schedule of donation received

Name of Project	Name of Donor	(Amount in Taka 000)	
		Taka	Taka
Community based Fisheries Management	World Fish Centre	1,325	-
WFCL Program in Haragachh	ILO	-	1,104
Northwest Microfinance Expansion Project	AusAID	30,067	-
Total		31,392	1,104

23 Other cash from operating activities & items not involving cash

Depreciation (Note- 17)	81,184	72,914
Loan loss provision [Note- 14(a)]	718,246	367,824
Decrease/(Increase) of receivable and other current assets	(69,698)	(12,133)
Decrease/(Increase) of other assets	(35,267)	(16,673)
Total	694,465	411,932

24 Loan disbursements and collections

	(Amount in Taka 000)			
	2004		2003	
	Disbursement for the year	Realisation for the year	Disbursement for the year	Realisation for the year
Rural credit borrowers	19,698,259	(17,048,634)	15,757,174	(14,500,390)
Urban credit borrowers	977,948	(733,590)	727,352	(792,396)
Hard-core poor borrowers	1,092,508	(1,513,661)	1,454,777	(953,030)
Microentrepreneurs borrowers	4,132,800	(3,394,701)	2,760,699	(1,864,666)
Total	25,901,515	(22,690,586)	20,700,002	(18,110,482)



(Amount in Taka 000)

	2004	2003
25 Loans from other sources		
(Decrease)/Increase in current other debts	709,188	(386,335)
Increase in long term other debts	442,363	168,268
	<u>1,151,551</u>	<u>(218,067)</u>
26 Other funds		
Increase in current liabilities	82,612	41,790
Increase in donors fund	31,116	758
Decrease in capital fund	-	26,153
	<u>113,728</u>	<u>68,701</u>

27 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.

28 Foreign Currency mismatch

Under micro finance operations, there are no assets and liabilities denominated in foreign currencies at the balance sheet date. As such, there is no foreign currency mismatch.

29 Unrealized gain or loss due to foreign currency fluctuation

Under micro finance operations, there are no monetary assets and liabilities denominated in foreign currencies at the balance sheet date. So, there are no unrealized gain or loss due to foreign currency fluctuations to be recorded in the statement of income and expenditure for the year 2004.

30 Financial Instruments**a) Financial Risk Management Objectives and Policies**

BRAC's financial risk management policy seeks to identify, appraise and monitor the risks facing BRAC whilst taking specific measures to manage its interest rate, foreign exchange, liquidity and credit risks. BRAC does not, however, engage in speculative transactions or take speculative positions, and where affected by adverse movements, BRAC has sought the assistance of donors.

b) Interest Rate Risk

BRAC's exposure to interest rate fluctuations is mitigated by fixed interest rate borrowings as well as fixed interest rates applicable to loans extended to VO members. BRAC does not engage in speculative transactions or take speculative positions on its interest exposure.

c) Foreign Exchange Risk

BRAC's foreign exchange risks comprise transaction risk which arises from donor grants received in currencies other than the local currency and minimal foreign currency deposits and cash at bank placed with licensed financial institutions. BRAC is exposed to foreign currency fluctuations, mainly in respect of donor grants denominated in United States Dollars, British Sterling Pound and the Euro.

Foreign exchange exposures in transactional currencies other than the local currency are monitored via periodic project cash flow and budget forecasts and are kept to an acceptable level.



d) Liquidity Risk

BRAC manages its debt maturity profile, operating cash flows and the availability of funding so as to meet all refinancing, repayment and funding needs. As part of its overall liquidity management, BRAC maintains sufficient levels of cash or fixed deposits to meet its working capital requirements. In addition, BRAC maintains banking facilities of a reasonable level.

e) Credit Risk

The credit policy of BRAC requires all credit exposures to be measured, monitored and managed proactively. Exposure to credit risk is monitored on an ongoing basis by the commercial ventures' respective management teams.

BRAC does not have any significant exposure to any individual customer or counterparty.



31 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 months	>3<12 months	>12<60 months	>60 months	Total
Property and Assets						
Current Assets						
Cash, bank balances and short-term depts	320,205	550,500	562,872	488,786	-	1,922,363
Receivables and other current assets	24,395	48,789	219,552	-	-	292,736
Loans to members	2,152,699	3,718,298	7,045,196	-	-	12,916,193
(Acc. provisions for doubtful loans & ac	-	-	(667,058)	-	-	(667,058)
Total Current Assets	2,497,299	4,317,587	7,160,562	488,786	-	14,464,234
Loans to members						
Regular	141,528	244,457	463,182	-	-	849,167
Non-performing	12,849	25,698	115,640	154,186	-	308,372
Renegotiated	20,890	41,781	156,678	198,458	-	417,807
(Acc. provisions for doubtful loans & ac	-	-	(353,029)	(235,353)	-	(588,382)
Net Loans outstanding	175,267	311,936	382,471	117,291	-	986,965
Net Fixed Assets						
Used in microfinance operations	12,076	24,152	108,683	579,641	724,551	1,449,103
Total Net Fixed Assets	12,076	24,152	108,683	579,641	724,551	1,449,103
Other Assets	6,239	8,319	37,435	197,575	-	249,569
Total Assets	2,690,881	4,661,994	7,689,151	1,383,293	724,551	17,149,870
Liabilities and Capital						
Current Liabilities						
PKSF Loan	37,500	140,533	531,900	-	-	709,933
Savings deposits	134,527	269,054	1,210,744	-	-	1,614,325
Others	38,606	77,212	347,454	-	-	463,272
Other Debts	9,419	62,326	273,951	466,700	-	812,396
Total Current Liabilities	220,052	549,125	2,364,049	466,700	-	3,599,926
Long -Term Liabilities						
Savings deposits	-	-	-	6,042,763	-	6,042,763
PKSF loan	-	-	-	1,555,000	33,333	1,588,333
Other debts	-	-	-	737,379	-	737,379
Total Long-Term Liabilities	-	-	-	8,335,142	33,333	8,368,475
Capital Fund						
Donor funds	-	-	-	1,830,573	-	1,830,573
Retained surplus	-	-	-	3,350,896	-	3,350,896
Total Capital Fund	-	-	-	5,181,469	-	5,181,469
Liabilities and Capital	220,052	549,125	2,364,049	13,983,311	33,333	17,149,870



**BRAC
MICROFINANCE PROGRAMME
FINANCIAL RATIO ANALYSIS**

(Numerical data in 000)

SL No.	Ratio	Formula	Purpose	2004 Calculation		2003 Calculation	
FINANCIAL SUSTAINABILITY RATIOS							
1	Return on Performing Assets	Total Income / Average Total Assets	Indicates financial productivity of credit services and investment activities	<u>3,714,584</u> 15,800,256	23.5%	<u>3,012,197</u> 13,490,661	22.3%
2	Financial Cost Ratio	Financial Cost / Average Total Assets	Shows cost of funds affected by mix of net worth, soft and hard loans	<u>609,805</u> 15,800,256	3.9%	<u>462,490</u> 13,490,661	3.4%
3	Loan Loss Provision Ratio	Loan Loss Provision / Average Total Assets	Indicates provisioning requirements on loan portfolio for current period	<u>718,246</u> 15,800,256	4.5%	<u>367,824</u> 13,490,661	2.7%
4	Operating Cost Ratio	Operating Cost / Performing Assets	Key Indicator of efficiency of lending operations.	<u>1,853,767</u> 15,800,256	11.7%	<u>1,546,269</u> 13,490,661	11.5%
5	Operating Self-sufficiency	Financial Income / Total Cost	Shows the credit programs' ability to cover costs of performance with internally generated income	<u>3,714,584</u> 3,181,818	116.7%	<u>3,012,197</u> 2,376,583	126.7%
6	Savings Outstanding Ratio	Total Savings / Total Principal Outstanding	Shows the credit programs' ability to fund loans from its savings fund	<u>7,657,088</u> 14,491,539	52.8%	<u>6,285,939</u> 11,493,192	54.7%
LIQUIDITY RATIOS							
1	Cash Position Indicator	Cash and Deposits due from Banks / Average Total Assets	Indicates ability to meet immediate cash needs	<u>1,922,363</u> 15,800,256	12.2%	<u>1,834,377</u> 13,490,661	13.6%
2	External Loan-to-Savings Deposits	External Net Loans / Total Deposits	Indicates dependency on volatile external loans rather than stable source (deposits)	<u>3,848,041</u> 7,657,088	50.3%	<u>3,166,457</u> 6,285,939	50.4%
OPERATING EFFICIENCY RATIOS							
1	Cost per Unit of Money Lent	Operating Cost / Loan Disbursed	Indicates efficiency in disbursing loans (in monetary terms)	<u>1,853,767</u> 25,901,515	7.2%	<u>1,546,269</u> 20,700,002	7.5%
2	Cost per Loan Made	Operating Cost / Number of Loans Made	Indicates efficiency of disbursing loans (in terms of no. of borrowers).	<u>1,853,767</u> 3,473	533.77	<u>1,546,269</u> 3,009	513.88
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	<u>3,994</u> 14	285	<u>3,493</u> 10	365
4	Portfolio per Credit Staff	Total Principal Outstanding/ Number of Credit Staffs	Indicates potential financial productivity of credit staff.	<u>14,491,539</u> 14	1,035,110	<u>11,493,192</u> 10	1,149,319
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	<u>726,178</u> 14,491,539	5.0%	<u>648,887</u> 11,493,192	5.6%
2	Reserve Ratio	Loan Loss Reserve / Value of Outstanding Principal	Indicates adequacy of reserves in relation to portfolio	<u>1,255,440</u> 14,491,539	8.7%	<u>749,776</u> 11,493,192	6.5%



Financial Highlights

The figures shown below are taken from the audited financial statements of BRAC for the fiscal years ended December 31, 2004 and 2003. All balances have been stated in terms of the value of the Bangladeshi Taka.

	(Amount in Taka 000)	
	2004	2003
Results for the year		
Consolidated (with grant income)		
Total income	11,522,016	9,347,017
Total expenditure	10,582,012	8,622,547
Excess of income over expenditure surplus/(deficit)	940,004	724,470
Consolidated (without grant income)		
Total income	8,083,748	7,053,691
Total expenditure	10,582,012	8,622,547
Excess of income over expenditure surplus/(deficit)	(2,498,264)	(1,568,856)
Microfinance Operations		
Total income	3,714,584	3,012,197
Total expenditure	3,181,818	2,376,583
Excess of income over expenditure surplus/(deficit)	532,766	635,614
At the end of the year		
Cash, bank balances and short-term deposits	1,922,363	1,834,377
Total loans to members		
Loans to rural microcredit borrowers	10,758,670	8,070,608
Loans to urban microcredit borrowers	545,742	309,887
Loans to hard-core poor	727,334	1,391,003
Loans to enterprising borrowers	2,459,793	1,721,694
Savings deposits	7,657,088	6,285,939
Total long-term debt	2,325,712	2,239,116
Capital fund	5,181,467	4,617,586
Total assets	17,149,870	14,450,643
Returns		
Surplus(consolidated) as % of average capital fund	12.03%	10.02%
Surplus(consolidated) as % of average portfolio	7.2%	7.0%
Surplus(consolidated) as % of average total assets	4.0%	3.8%
Ratios		
Cumulative loan collection ratio on total dues	99.38%	99.32%
Loan collection ratio on current dues	98.74%	98.04%
Current ratio	4.02	4.20
Liquidity ratio	25%	29%
Debt/equity ratio	0.45	0.48
Capital adequacy ratio	34%	37%
Debt service cover ratio	9.07:1	12.99:1
General & administrative expenses as % of average portfolio	14.3%	14.9%
Total loan principal affected by arrears as % of outstanding portfolio (5 or more instalments payment missed)	5.01%	5.60%



Auditor's Compliance Certification on BRAC

We have audited the financial statements of BRAC for the year ended December 31, 2004. 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	117,178,627
Cumulative collectibles	117,904,805
	= 99.38%
(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	22,690,586
Collectible on current dues	22,979,788
	= 98.74%
(b) Minimum liquidity ratio of 20%	25%
(c) Minimum current ratio of 1.5	3.92: 1
(d) Minimum capital adequacy ratio of 20%	34%
(e) Minimum debt service cover ratio of 1.25	9.07:1
(f) Minimum rate of return on capital of 2%	11%

S. F. Ahmed

S. F. Ahmed & CO.
 Chartered Accountants
 Dhaka, April 25, 2005



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	9,156,131	91,562
	Urban microcredit borrowers	499,425	4,994
	Hard core poor borrower	773,082	7,731
	Microentrepreneurs borrowers	2,405,920	24,059
	Sub-Total	12,834,558	128,346
Watchlist (1 - 30 days) (5%)	Rural microcredit borrowers	413,192	20,659
	Urban microcredit borrowers	9,439	472
	Hard core poor borrower	29,182	1,459
	Microentrepreneurs borrowers	8,326	416
	Sub-Total	460,139	23,007
Substandard (31 - 180 days) (20%)	Rural microcredit borrowers	629,888	125,977
	Urban microcredit borrowers	19,419	3,884
	Hard core poor borrower	45,200	9,040
	Microentrepreneurs borrowers	19,352	3,870
	Sub-Total	713,859	142,772
Doubtful (181 - 350 days) (75%)	Rural microcredit borrowers	111,334	83,502
	Urban microcredit borrowers	2,212	1,659
	Hard core poor borrower	29,567	22,175
	Microentrepreneurs borrowers	6,385	4,789
	Sub-Total	149,498	112,124
Loss (Over 350 days) (100%)	Rural microcredit borrowers	248,125	248,125
	Urban microcredit borrowers	15,247	15,247
	Hard core poor	50,302	50,302
	Microentrepreneurs borrowers	19,811	19,811
	Sub-Total	333,485	333,485
	Total	14,491,539	739,734



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	221,928	2,219
	Cottage Industry	40,148	401
	Fisheries	8,421	84
	Food Processing	291,282	2,913
	Health	714	7
	Housing	8,694	87
	Livestock and Poultry	166,392	1,664
	Miscellaneous	1,591,904	15,919
	Rural trading	7,560,254	75,604
	Rural Transport	32,322	323
	Sericulture	523	5
	UDP	499,425	4,994
	MELA	2,405,920	24,059
	Services	6,631	66
All Sub-Sectors	12,834,558	128,346	
Watchlist (1 - 30 days) (5%)	Agriculture	7,306	365
	Cottage Industry	2,794	140
	Fisheries	486	24
	Food Processing	15,260	763
	Health	10	1
	Housing	819	41
	Livestock and Poultry	11,601	580
	Miscellaneous	42,549	2,127
	Rural trading	359,520	17,975
	Rural Transport	1,527	76
	Sericulture	44	2
	UDP	9,439	472
	MELA	8,326	416
	Services	458	23
All Sub-Sectors	460,139	23,007	
Substandard (31 - 180 days) (20%)	Agriculture	7,822	1,564
	Cottage Industry	5,697	1,139
	Fisheries	1,280	256
	Food Processing	36,620	7,324
	Health	33	7
	Housing	2,514	503



Loan Classification Aging of Arrears & % Provisions	Sub-Sector	Outstanding Amount Taka	Amount of Provisions Taka
	Livestock and Poultry	21,530	4,306
	Miscellaneous	51,894	10,379
	Rural trading	544,364	108,874
	Rural Transport	2,384	477
	Sericulture	95	19
	UDP	19,418	3,884
	MELA	19,352	3,870
	Services	856	171
	All Sub-Sectors	713,859	142,772
Doubtful (181 - 350 days) (75%)	Agriculture	1,386	1,040
	Cottage Industry	764	573
	Fisheries	227	170
	Food Processing	11,156	8,367
	Health	11	8
	Housing	2,924	2,193
	Livestock and Poultry	15,382	11,537
	Miscellaneous	3,654	2,741
	Rural trading	104,836	78,626
	Rural Transport	388	291
	Sericulture	4	3
	BUP	2,212	1,659
	MELA	6,385	4,789
	Services	169	127
All Sub-Sectors	149,498	112,124	
Loss (Over 350 days) (100%)	Agriculture	15,345	15,345
	Cottage Industry	505	505
	Fisheries	9,350	9,350
	Food Processing	27,434	27,434
	Health	382	382
	Housing	25,205	25,205
	Livestock and Poultry	35,606	35,606
	Miscellaneous	29,654	29,654
	Rural trading	151,672	151,672
	Rural Transport	1,586	1,586
	Sericulture	265	265
	BUP	15,248	15,248
	MELA	19,811	19,811
	Services	1,422	1,422
All Sub-Sectors	333,485	333,485	
Total	14,491,539	739,734	



Statement of Renegotiated Loans

Program Component or Sub-Sector	Renegotiated Loans	
	Amount (Taka'000)	% of Total
Programme Component		
Rural microcredit borrowers	310,089	74.2%
Urban microcredit borrowers	12,620	3.0%
Hard core poor borrowers	77,173	18.5%
Microentrepreneurs borrowers	17,925	4.3%
All Borrowers	417,807	100.0%
Sub-Sectors		
Agriculture	8,641	2.1%
Cottage Industry	1,563	0.4%
Fisheries	328	0.1%
Food Processing	11,342	2.7%
Health	28	0.0%
Housing	339	0.1%
Livestock and Poultry	6,479	1.6%
Miscellaneous	61,983	14.8%
Rural Trading	294,369	70.5%
Rural Transport	1,258	0.3%
Sericulture	20	0.0%
UDP	12,620	3.0%
MELA	18,579	4.4%
Services	258	0.1%
All Sub-Sectors	417,807	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.Baria	243,698	1.8%
2. Bagerhat	169,875	1.2%
3. Bandarban	23,612	0.2%
4. Barguana	87,010	0.6%
5. Barishal	334,780	2.4%
6. Bhola	95,845	0.7%
7. Bogra	410,571	3.0%
8. C.N. Gonj	147,728	1.1%
9. Chandpur	381,608	2.8%
10. Chittagong	376,828	2.7%
11. Chuadanga	122,581	0.9%
12. Comilla	563,061	4.1%
13. Cox's Bazar	140,451	1.0%
14. Dhaka	423,988	3.1%
15. Dinajpur	320,207	2.3%
16. Faridpur	375,144	2.7%
17. Feni	136,347	1.0%
18. Gaibandha	300,323	2.2%
19. Gazipur	205,043	1.5%
20. Gopalganj	209,535	1.5%
21. Hobigonj	151,044	1.1%
22. Jamalpur	180,340	1.3%
23. Jessore	335,266	2.4%
24. Jhalokhati	104,264	0.8%
25. Jhenaidah	294,213	2.1%
26. Joypurhat	135,526	1.0%
27. Khagrachhari	68,439	0.5%
28. Khulna	249,561	1.8%
29. Kishoregonj	269,499	2.0%
30. Kurigram	140,081	1.0%
31. Kusthia	237,744	1.7%
32. Lalmonirhat	151,643	1.1%
33. Laxmipur	88,185	0.6%
34. Madaripur	144,512	1.1%
35. Magura	138,057	1.0%
36. Manikgonj	362,230	2.6%
37. Meherpur	122,582	0.9%
38. Moulavi Bazar	197,317	1.4%
39. Munshigonj	143,934	1.0%
40. Mymensingh	333,944	2.4%
41. Narayangonj	160,975	1.2%



Geographical, Sub-Sectoral and Single Loan Concentration	Loans (Net of Provisions)	
	Amount (Taka' 000)	% of Total
42. Narshingdi	330,734	2.4%
43. Natore	237,968	1.7%
44. Nawgaon	274,694	2.0%
45. Netrokona	177,813	1.3%
46. Nilphamary	144,931	1.1%
47. Noakhali	158,172	1.2%
48. Norail	109,070	0.8%
49. Pabna	381,792	2.8%
50. Panchagar	125,332	0.9%
51. Patuakhali	100,392	0.7%
52. Pirojpur	125,211	0.9%
53. Rajbari	194,708	1.4%
54. Rajshahi	312,678	2.3%
55. Rangamati	23,613	0.2%
56. Rangpur	321,281	2.3%
57. Shariatpur	113,589	0.8%
58. Shatkhira	207,727	1.5%
59. Sherpur	200,890	1.5%
60. Sirajgonj	266,554	1.9%
61. Sunamgonj	159,513	1.2%
62. Sylhet	215,650	1.6%
63. Tangail	373,369	2.7%
64. Thakurgaon	118,533	0.9%
All Districts	13,751,805	100.0%
Sub-Sectors		
Agriculture	233,254	1.7%
Cottage Industry	47,149	0.3%
Fisheries	9,879	0.1%
Food Processing	334,951	2.4%
Health	746	0.0%
Housing	12,127	0.1%
Livestock and Poultry	196,818	1.4%
Miscellaneous	1,658,835	12.1%
Rural trading	8,287,895	60.3%
Rural Transport	35,453	0.3%
Sericulture	637	0.0%
UDP	519,485	3.8%
MELA	2,406,848	17.5%
Services	7,728	0.1%
All Sub-Sectors	13,751,805	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	8	1.19%
Fluctuating income	12	1.78%
Burdensome payments	9	1.34%
Multiple loans	0	0.00%
Drop-outs of members	5	0.74%
Hartals	13	1.93%
Floods	39	5.79%
Others (Reluctant)	5	0.74%
Borrowers' assesment after availing of loan		
Poorer	42	6.23%
Improved incomes	632	93.77%
No. of Borrowers in Total Loan Sample	674	N/A

Analysis of Findings:

Particulars	No of Borrowers	Comments
Current loan - No arrears	583	Improved incomes
Loans with 1 - 30 days past due	32	Improved incomes
Loans with 31 - 180 days past due	27	Improved incomes/poorer
Loans with 181 - 350 days past due	17	Improved incomes/poorer
Loans over 350 days past due	15	Improved incomes/poorer
	<u>674</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	5	33.33%
Fluctuating income	2	-
Burdensome payments	-	-
Multiple loans	-	-
Drop-outs of members	-	-
Hartals	-	-
Floods	7	46.67%
Others (Dead)	1	6.67%
Borrowers' assesment after availing of loan		
Poorer	7	46.67%
Improved incomes	8	53.33%
No. of Borrowers in Non-Performing Loan Sample	15	N/A



Sampling Methods for Loans and Deposits

BRAC has loans extended to and deposits taken from over four 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.

