

BRAC
Micro Credit Program

Auditors' Report and Financial Statements
for the year ended 31 December 1999



জে. আর. চৌধুরী এণ্ড কোং
J. R. Chowdhury & co.
Chartered Accountants


AUDITORS' REPORT

We have audited the accompanying Balance Sheet of Micro Credit Program of BRAC as at 31 December 1999 and also the related Income and Expenditure Statement and the Statement of Cash Flow for the year ended 31 December 1999. These financial statements are the responsibility of the 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 approved auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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 respect, the financial position of Micro Credit Program as at 31 December 1999 and the result of its operations for the year then ended in conformity with the approved accounting principles.

Dhaka, 04 April 2000


J.R. CHOWDHURY & CO.
Chartered Accountants


BRAC
Micro Credit Program
Balance Sheet as at 31 December 1999

PROPERTY AND ASSETS

	Notes	1999 Taka	1998 Taka
Cash and bank balances	3	54,556,547	295,648,234
Short term investment	4	678,785,800	632,100,000
Current account with project/areas offices		212,569,642	52,518,249
Stocks and stores	5	1,376,155	10,870,254
Advances, deposits and prepayments	6	35,163,572	13,832,706
Advance to staff against motor cycle		98,885,741	44,424,590
Loan to project	7	60,000,000	90,000,000
Loan to VO members	8	7,021,581,762	5,193,368,143
Loan loss provision	9	(471,210,760)	(449,536,953)
		<u>6,550,371,002</u>	<u>4,743,831,190</u>
Total Current Assets		7,691,708,459	5,883,225,223
Fixed Assets			
At cost	10	811,318,069	690,528,842
Less : Accumulated depreciation		(147,514,770)	(125,963,128)
		<u>663,803,299</u>	<u>564,565,714</u>
TOTAL ASSETS		<u>8,355,511,758</u>	<u>6,447,790,937</u>
FUND AND LIABILITIES			
Capital Fund			
Retained net surplus/(deficit) brought forward from previous year		1,135,602,062	835,480,390
Adjustment in respect of earlier year		1,340,943	5,649,083
Income from operation and grant during the year		165,192,993	294,472,589
		<u>1,302,135,998</u>	<u>1,135,602,062</u>
Donor fund invested in loan		1,461,829,455	2,106,381,541
Donor fund invested in fixed assets		295,089,383	305,518,046
Long term loan	11	2,069,799,400	1,173,589,000
Current Liabilities			
Creditors for expenses		240,435,187	198,934,697
VO members saving deposits		2,902,953,491	1,484,660,043
VO members group deposits		7,466,410	10,148,331
Current and project account		75,802,434	32,957,217
		<u>3,226,657,522</u>	<u>1,726,700,288</u>
Total Current Liabilities		<u>3,226,657,522</u>	<u>1,726,700,288</u>
Total Liabilities		<u>8,355,511,758</u>	<u>6,447,790,937</u>

The attached notes form an integral part of this Balance Sheet.

Signed in terms of our report of even date annexed.


J.R. CHOWDHURY & CO.
Chartered Accountants

Dhaka, 04 April 2000

J.R.CHOWDHURY & CO.
Chartered Accountants

BRAC
Micro Credit Program
Income and Expenditure Statement
for the year ended 31 December 1999

INCOME

	<u>Notes</u>	<u>1999</u> <u>Taka</u>	<u>1998</u> <u>Taka</u>
Service charge on loans		1,378,922,205	1,243,869,424
Bank interest income		93,918,517	44,542,500
Income from other projects		46,644,558	15,511,065
Total Income		1,519,485,280	1,303,922,989
Financial Cost of Lending :			
Interest paid on deposits and loans		(233,452,232)	(145,356,433)
Gross Financial Margin		1,286,033,048	1,158,566,556
Provision for loan losses		(219,965,842)	(254,721,277)
		1,066,067,206	903,845,279

EXPENDITURE

Village organization formation and development		2,936,911	3,153,097
Salaries and benefits		648,651,522	436,272,489
Travelling and transportation		65,160,632	55,040,770
Staff training and development		27,104,115	18,684,117
Office rent		17,188,243	13,312,988
Utilities		19,985,520	14,639,014
Stationery		44,722,791	35,288,511
Maintenance		26,104,425	12,602,421
General expenses		16,441,667	17,012,764
Insurance paid to VO members		26,138,400	-
HO logistics and management expenses	12	40,432,607	22,861,203
Depreciation		19,248,702	16,706,814
		954,115,535	645,574,188
Net margin from credit operation		111,951,671	258,271,091
Net margin from credit operation		111,951,671	258,271,091
Add : Income from grants for credit services		53,241,322	36,201,498
Balance carried to Balance Sheet		165,192,993	294,472,589

BRAC
Micro Credit Program
Statement of Cash Flow
for the year ended 31 December 1999

	<u>1999</u> Taka	<u>1998</u> Taka
Cash Flow from Operating Activities :		
Surplus of income over expenditure	165,192,993	294,472,589
Adjustment in respect of earlier year	1,340,943	5,649,083
Adjustment to reconcile changes net assets to net cash provided by operating activities :		
Loan loss provision	219,965,842	254,721,277
Depreciation	19,248,702	16,706,814
	239,214,544	271,428,091
Adjustment for other accounts		
Increase in current account with project/area office	(160,051,393)	(4,174,552)
Increase in advances, deposits and prepayments	(75,792,017)	(33,044,900)
Increase in other liabilities	41,500,490	57,315,454
Increase in stocks and stores	9,494,099	(8,034,827)
	(184,848,821)	12,061,175
Net cash generated from operating activities	<u>220,899,659</u>	<u>583,610,938</u>
Cash Flow from Investing Activities :		
Increase in loan to VO members	(1,828,213,619)	(1,298,045,929)
Purchase of fixed assets	(118,486,287)	(165,194,613)
Loan written off	(198,292,035)	(6,637,518)
Decrease in loans to project	30,000,000	30,000,000
Increase in fixed deposits	(46,685,800)	(189,100,000)
Net cash used in operating activities	<u>(2,161,677,741)</u>	<u>(1,628,978,060)</u>
Cash Flow from Financing Activities :		
Decrease in donor fund investment in loans and assets	(654,980,749)	235,175,904
Increase in long term loan	896,210,400	471,262,800
Increase in VO members saving deposits	1,458,456,744	383,389,725
Net cash provided by financial activities	<u>1,699,686,395</u>	<u>1,089,828,429</u>
Net decrease in cash in hand and at bank	(241,091,687)	44,461,307
Cash in hand and at bank beginning of the year	295,648,234	251,186,927
Cash in hand and at bank at the end of the year	<u><u>54,556,547</u></u>	<u><u>295,648,234</u></u>

BRAC
Micro Credit Program
Notes to the Accounts to 31 December 1999

1. Background

BRAC's micro - credit program date back to the late seventies and remained a core component of the various socio - economic activities carried out by BRAC from time to time. The target groups of the micro-credit program are predominantly females and credits are disbursed through a net work of thousands of village organizations (samities) across the country formed through the initiatives and motivation by BRAC workers. As of 31 December 1999 a total of 90,250 village organizations have been formed and the amount of outstanding credit stood at Taka 7,021,581,762 which is due from 2,582,016 borrowers. The credit helps rural people to undertake various economic activities against which the following rank prominent :

- fisheries
- rural trading
- rural transport
- paddy husking
- health
- agriculture
- poultry and livestock
- cottage industries
- housing

The total number of members of the Village Organizations under BRAC is 3,353,134. The amount of interest earned on loan provided to the borrowers together with the principal recovered are revolved and utilized for further lending. The recovery rate of micro - credit is 98.40 % and has greatly contributed to BRAC's continuous expansion of the credit programs.

2. Accounting Policies

Basis of accounting

These accounts have been prepared on a going concern basis under historical cost convention.

Mercantile and cash basis accounting are being followed concurrently in recording and reporting financial operations of the Project.

The total loan portfolio represents consolidated sum of all outstanding loans of the micro-credit components of various programs undertaken from time to time.

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Fixed Assets

Fixed Assets have been stated at cost less accumulated depreciation.

Depreciation

Depreciation has been charged on all assets apart from land at the following rates :

Building	2.5 % to 4 %
Furniture and fixtures	10 %
Equipment	15 %
Vehicle	20 %
Bi-cycle	20 %

3. Cash and Bank Balances

This represents cash in hand at Area Offices and Head Office and balance with different banks at 31 December 1999 .

4. Short Term Investment

This represents amount invested in fixed deposits for a short period.

5. Stocks and Stores

This represents cost of pass books and salable forms remained in stocks with Area Offices and Head Office for use at subsequent period.

6. Advances, Deposits and Prepayments

This represents amount advanced to employees against their salary and benefits which is adjustable from the salaries and benefits and amount advanced to 3rd Parties.

7. Loan to Project

This represents temporary loan allowed to BRAC for construction of BRAC Head Office building which bears interest @ 9 % and is repayable in 10 (ten) half yearly installments starting from June 1996.

BRAC
Micro Credit Program
Ratio Analysis

OPERATING EFFICIENCY RATIO			1999		1998	
1.	Return on performing assets Indicates financial productivity of credit services and investment activities	Total income/ Average Total Assets	1,519,485,280	20.5%	1,303,922,989	22.8%
			7,401,651,348		5,724,158,160	
2.	Financial Cost Ratio Shows cost of funds: affected by mix of net worth, soft and hard loans	Financial Cost/ Average Total Assets	233,452,233	3.2%	145,356,433	2.5%
			7,401,651,348		5,724,158,160	
3.	Loan loss provision ratio Indicates provisioning requirements on loans portfolio for current loans	Loan Loss Provision/ Average Total Assets	219,965,842	3.0%	254,721,277	4.4%
			7,401,651,348		5,724,158,160	
4.	Operating Cost Ratio Key indicator of efficiency of lending operation	Operating Cost/ Performing Assets	954,115,535	12.9%	645,574,188	11.3%
			7,401,651,348		5,724,158,160	
5.	Operating Self-sufficiency Shows the credit programs ability to cover costs of performance with internally generated income	Financial Income/ Total Cost	1,519,485,280	108.0%	1,303,922,989	124.7%
			1,407,533,610		1,045,651,898	
6.	Savings Outstanding Ratio Shows the credit programs ability to fund loans from its savings fund	Total Savings/ Total Principal Outstanding	2,910,419,901	41.4%	1,494,808,374	28.8%
			7,021,581,762		5,193,368,143	
7.	Cost per unit of money lent Indicates efficiency in disbursing loans (in monetary terms)	Operating Cost/ Loan disbursed	954,115,535	8.8%	645,574,188	7.7%
			10,843,441,145		8,333,952,895	
8.	Cost per loan made	Operating Cost/ Number of Loans made	954,115,535	430.2	645,574,188	307.9
			2,217,915		2,096,960	
9.	Number of active borrowers per credit staff	Number of Active borrowers Number of Credit Staffs	2,582,016	331	2,003,789	384
			7,798		5,212	
10.	Portfolio per credit staff	Total Principal Outstanding/ Number of Credit Staffs	7,021,581,762	900.4	5,193,368,143	996.4
			7,798		5,212	

PORTFOLIO QUALITY RATIOS

1.	Portfolio at risk Measures amount of default risk in portfolio	The principal balance of loans with at least one payment overdue/ Total Principal Outstanding	354,671,370	5.1%	125,426,993	2.4%
			7,021,581,762		5,193,368,143	
2.	Reserve Ratio Indicates adequacy of reserves in relation to portfolio	Loan Loss Reserve/ Value of Outstanding Principal	471,210,780	6.7%	449,536,953	8.7%
			7,021,581,762		5,193,368,143	

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9. Loan Loss Provision

Loan loss provision has been made @ 2 % of the loan disbursed during the year .

	Taka
Balance at 1 January 1999	449,536,953
Add : Loan loss provision for the year	219,965,842
	<u>669,502,795</u>
Less: Loan written off	(198,292,035)
	<u><u>471,210,760</u></u>

10. Fixed Assets

Land	189,590,235
Building	512,327,728
Furniture and fixtures	71,960,257
Equipment	21,085,596
Vehicle	10,055,500
Bi-cycle	6,298,753
	<u>811,318,069</u>
Less : Accumulated depreciation	(147,514,770)
	<u><u>663,803,299</u></u>

11. Long Term Loan

a) Government of the People's Republic of Bangladesh	205,079,000
b) Palli Karma Shahayak Foundation (PKSF)	1,378,000,000
c) Bangladesh Krishi Bank (BKB)	96,720,400
d) Pubali Bank Limited	100,000,000
e) Arab Bangladesh Bank Limited	100,000,000
f) American Express Bank	190,000,000
	<u><u>2,069,799,400</u></u>

a) Loan from the Government of Bangladesh is an interest free loan. It is a revolving loan and will revolve till the completion of income generation program for Vulnerable Group.

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- b) Loan from Palli Karma Shahayak Foundation was obtained to support credit program and bears interest @ 5 %. This loan is repayable in equal half yearly installments in 5 (five) years with a grace period of 4 (four) years starting from the date of disbursement.
- c) Loan from Bangladesh Krishi Bank to support credit program and bears interest @ 8 % . The loan is repayable in ten half yearly installments with a grace period of 5 (five) years.
- d) Loan from Pubali Bank Limited was obtained to support credit program and bears interest @ 11% and is repayable within 1 (one) year.
- e) Loan from Arab Bangladesh Bank Limited was obtained to support credit program and bears interest @ 9% and is repayable within 1 (one) year.
- f) Loan from American Express Bank was obtained to support credit program and bears interest @ 11% and is repayable within 1 (one) year.

12. HO Logistics and Management Expenses

This represents amount charged by Head Office to recover supervision and management cost of the of the program.