

BRAC International Holdings B.V.

BRAC International Holdings B.V.

**Financial statements 2017**

# BRAC International Holdings B.V.

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# BRAC International Holdings B.V.

## Supervisory Board Report

The Supervisory Board has a supervisory role at BRAC International Holdings BV and acts as the employer and advisor for the Management Board. The Supervisory Board upholds the principles of the Code of Good Governance for the company and acts accordingly. The Supervisory Board's mandate and tasks are laid down in statutes.

### Composition and functioning of the Supervisory Board

The Supervisory Board has four members and is chaired by Sir Fazle Hasan Abed. The chair of the Supervisory Board is also the chair of the Supervisory Board of Stichting BRAC International, the sole shareholder. Sir Fazle is the founder and chairperson of BRAC.

The Supervisory Board members are appointed by co-optation. The period of membership is governed by the constitution and there is no Board remuneration applicable for the Supervisory Board. As the organisation values diversity, the Supervisory Board currently has equal numbers of female and male members.

The Supervisory Board is charged with overall supervision of the policies pursued by the Management Board and approves the Company's annual report, financial statements, budget and business plans

The Supervisory Board members are committed to the principles of good corporate governance and recognise the need to conduct the business in accordance with generally accepted best practice. In the discharge of its duties, the Supervisory Board is guided by the interests of the company and its associated institutions and acts as an advisor to the Management Board.

In doing so the members confirm that:

- the Supervisory Board met twice in duly conveyed meetings during the year;
- they retain full and effective control over the company;
- the Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance; and
- they bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.

The Microfinance operations are run as businesses, each being registered as a separate legal entity in the country where it is located and having its own Board. These local Boards have include representatives of the BV Management Board. The financial results of these entities are consolidated under BRAC International Holdings BV.

### The Supervisory Board in its supervising role

As part of its supervisory role, the Supervisory Board approved the 2016 audited financial statements and Board report, the 2017 revised budget and the 2018 annual plan and budget. The annual report of external auditors for 2016 was also presented and discussed with the Supervisory Board.

The Finance and Audit Board committee, consisting of three members of the Supervisory Board, prepares advice for the Supervisory Board on the annual financial statements,

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budget, and annual report. The committee also monitors the follow-up of points raised in internal and external audits and recommendations in the auditor's letter to management.

## **The Supervisory Board as an employer and advisor**

The Supervisory Board appoints the Management Board and conducts their performance reviews. The Board also listen to various proposals of the Management Board and advises on operations from time to time.

## **Compensation**

Members of the Supervisory Board do not receive compensation for their work. From June 2017 the company started providing an honorarium of USD 200 to members for attending Board and Board committee meetings.

The Hague, 21<sup>st</sup> June 2018

On behalf of BRAC International Holdings BV Supervisory Board

Sir Fazle Hasan Abed KCMG, Chair

# BRAC International Holdings B.V.

## Management Board Report

The Management Board of BRAC International Holdings B.V. ('the Company') hereby presents the statutory financial statements for the year ended on 31 December 2017.

### General Information

BRAC International Holdings B.V. is a private limited liability company, organised and existing under the laws of the Netherlands with its registered address at Bezuidenhoutseweg 2, 2594 AV, The Hague, which was incorporated on 4 May 2010.

The Company is a wholly-owned subsidiary of Stichting BRAC International, a foundation organised and existing under the laws of the Netherlands.

In 2009, Stichting BRAC International was formed as a non-profit foundation in the Netherlands to govern all BRAC entities outside Bangladesh and with an objective to engage in charitable and social welfare activities in any country of the world.

BRAC is the largest non-governmental development organisation in the world, measured by the number of employees and number of people it has helped. BRAC was ranked the number one NGO in the world for the third consecutive year in 2018 by the Geneva based NGO Advisor, an independent organisation committed to highlighting innovation, impact and governance in the non-profit sector. BRAC retained the top spot as part of the 2018 top 500 NGOs World rankings.

The journey of BRAC began in 1972 in the newly sovereign Bangladesh and dedicated itself in poverty alleviation through empowering the poor and the ones in need. Over the course of its evolution, BRAC has been playing a significant role to arrest poverty in the communities and society as a whole. Currently BRAC reaches out an estimated 138 million people with over 110,000 dedicated and motivated employees.

In 2002, BRAC started to venture out of Bangladesh in Afghanistan and started to implement programmes according to the contexts in different countries. Over the years, BRAC expanded its operation both in Asia and Africa.

We refer to the website of BRAC for more details about the several international programmes within the BRAC organisation.

### Our Objectives and Activities

The Company's share capital consists of 7.6 million shares with a par value of one euro (EUR 1) each. As of 31 December 2017, all of BRAC International Holdings B.V.'s 7.6 million shares are owned by and issued to Stichting BRAC International (31 December 2016: 7.6 million shares).

For investment purpose, the number of shares may go up in the future. The additional capital will come from Stichting BRAC International.

The Company's business objectives are:

- to make available management and know-how, to administer, to provide for the management of and to supervise other enterprises, to provide business services, to perform all other acts in the financial, industrial and commercial field;

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- to participate in, to take a participating interest in and to cooperate with other enterprises, either directly or indirectly; and
- to acquire and dispose of assets, to finance third parties, including the granting of loans to shareholders, also with a view to the taking or acquisition of shares in the capital of the company itself or of a depositary receipts thereof, to assume liabilities for third parties carrying on a business or not and to provide collateral or personal security for them.

The core activity of BRAC International Holdings B.V. is to provide microfinance services to the financially constrained and marginalized people, who do not have access to the financing facilities offered by banks and other non-bank financial institutions. The social enterprise programme currently includes the seed production and distribution in Uganda.

The Company is involved into these social enterprises that have the objective to also generate funding for the social development programmes.

BRAC International Holdings B.V., by its nature is a socially responsible organisation in spite of most of its microfinance programmes being profit making. The commitment of the organisation is to eradicate poverty from the world through helping the people under poverty by engaging them in economic activities and create sustainable income generation for themselves. This is in line with the first priority goal of the Sustainable Development Goals (SDGs).

The environment where the legal entities under BRAC International Holdings B.V. operate are very often difficult to work in, such as post-Ebola crisis in West Africa, political conflicts in few of the Asian countries, countries with high inflation where foreign currency loss dents the bottom line to a large extent. However, we are committed to carry out our mission to develop countries in fragile conditions despite all drawbacks.

The microfinance programmes in most of the countries have a positive result after taxes. Currently these profits and the related cash flows are reinvested into the microfinance operation in the respective countries.

The operations also share cost of establishments with the programmes operated by the legal entities under Stichting BRAC International. The social development programmes as Education, Health, and Agriculture programmes are benefitted from the for-profit operations of the Company and thus, helping the society to achieve financial empowerment, sustainable income generation and meet the subsistence needs for a better living.

As such, BRAC International Holdings B.V. is contributing to the society as a whole.

BRAC International Holdings B.V. has the role to consolidate the financial results of the microfinance and social enterprise operations in the in six countries and an investment in Sri Lanka. The consolidated financial statements include the financial data of the stand-alone parent organisation, its group companies and other legal entities over which the Company has control.

In 2017, BRAC Uganda Microfinance Ltd, BRAC Tanzania Finance Ltd, BRAC Zanzibar, BRAC Microfinance Sierra Leone Ltd, BRAC Liberia Microfinance (Co) Ltd, BRAC Myanmar Microfinance Company Ltd, BRAC Lanka Investment Limited and BRAC Social Business Enterprise Uganda Limited and BRAC Pakistan are part of this consolidation.

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Control exists when BRAC International Holdings B.V. has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing whether controlling interest exists, potential voting rights that are currently exercisable are taken into account.

On 31 October 2017 Soros Economic Development Fund (SEDF), owner of 24.5% shares in BRAC Liberia Microfinance Ltd and BRAC Microfinance (SL) Ltd donated its shares to BRAC USA and made an exit from the investment. BRAC USA in turn donated the shares to Stichting BRAC International. Stichting BRAC International donated the shares to BRAC International Holdings B.V. as capital contribution to the entity.

Hence, as of December 2017 BRAC International Holdings B.V. owns 100% shareholdings in microfinance entities in Sierra Leone and Liberia (2016: 75.5%), Myanmar, BRAC Social Enterprise Uganda Limited, and in an investment entity in Sri Lanka. It also has been exercising control over the microfinance entities in Tanzania, Uganda, Pakistan and Zanzibar (no change compared to 31 December 2016).

## Our vision

A world free from all forms of exploitation and discrimination where everyone has the opportunity to realise their potential.

## Our mission

To empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large-scale positive changes through economic and social programmes that enable women and men to realise their potential.

## Our values

**Innovation:** The Company has been an innovator in the creation of opportunities for the people in need to lift themselves out of poverty. We value creativity in programme design and strive to display global leadership in groundbreaking development initiatives.

**Integrity:** The Company values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Company holds these to be the most essential elements of our work ethic.

**Inclusiveness:** The Company is committed to engaging, supporting and recognizing the value of all members of society, regardless of race, religion, gender, nationality, ethnicity, age, physical or mental ability, socioeconomic status and geography.

**Effectiveness:** The Company values efficiency and excellence in all our work, constantly challenging ourselves to perform better, to meet and exceed programme targets, and to improve and deepen the impact of our interventions.

# BRAC International Holdings B.V.

## Governance

In line with the guidelines for corporate governance in the Netherlands, the Board decided to adopt a two-tier governance structure to create a clear division between executive and supervisory responsibilities from the end of 2016.

## Supervisory Board

The Supervisory Board is charged with the overall supervision of the policies pursued by the Management Board and its associated institutions and/or entities.

The Management Board is charged with the daily management, the preparation of the budget, the financial statements and the long-term strategy plan. The Supervisory Board has stipulated specific restrictions that require its approval.

The Supervisory Board exists out of the following members:

1.	Sir Fazle Hasan Abed KCMG	Chair	Bangladeshi
2.	Dr. Muhammad Musa	Member	Bangladeshi
3.	Ms. Parveen Mahmud	Member	Bangladeshi
4.	Ms. Sylvia Borren	Member	Dutch

## Management Board

The Management Board consists of the following members:

1.	Mr. Faruque Ahmed	Managing Director	Bangladeshi
2.	Mr. Hans Eskes	Director	Dutch

In the discharge of their duties, the Directors shall be guided by the interests of the Company and the business carried on by the Company. The Management Board may decide to appoint one or more authorised signatories and to determine their authority and title. For management board the company intends to achieve gender diversity in near future.

## Significant risks and uncertainties

Risks and uncertainties are integral part of operation for any kind of organisation. For BRAC International Holdings B.V., significant risks and uncertainties mainly involve around instability and uncertainties in the post-conflict and in-conflict countries where we operate in. The organisation is taking necessary measures to handle this on a continuous basis, based on the risk management framework. The general policy is to mitigate and avoid risks. No activities with respect to trading and/or speculation are executed.

Risk management is practiced across the organisation in a structured approach, starting from category-wise risk profiling through risk matrix and monthly assessing and monitoring of extreme and high risk elements. The risk management is categorized into five major categories 1) Strategic, 2) Operational, 3) Financial, 4) External and Environmental and 5) Political and Legal risks.



# BRAC International Holdings B.V.

## **Strategic risks**

The strategic risks are mainly identified from organisational sustainability point of view in a country, such as risks on loss of reputation leading to business failure and loss of secured funding due to changes in priorities of the lending institutions. Mitigation for strategic risks mainly involves monitoring through reporting, regular visits, and coordination between the microfinance teams of the countries and head office.

## **Operational risks**

Operational risks are mainly identified from day-to-day operations, such as human resource management, functional relationship with local governments, and adoption of local cultures. Operational risks are mitigated through constant monitoring by group microfinance team through communication, visits and following up from head office as well as local country offices on a regular basis.

## **External/environmental/political/legal risks**

The risks associated with external environment are beyond our control. These types of risks, such as impact of climate change, natural and man-made disaster, and sudden changes in governmental or legal regulations or regulatory requirements are mostly having precautionary measures as risk mitigation, and are mostly based on learnings from previous experience. Maintaining good relationship and rapport building with government agencies and lending institutions are most common mitigation activities.

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

## **Financial risks**

### *Credit risk*

Credit risk arises principally from the Company's loans and receivables presented under financial fixed assets, trade and other receivables and cash. The credit risk is spread over a large number of counterparties (banks, customers and other third parties).

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the country in which customers are located, as these factors may have an influence on credit risk. In addition, natural calamities, such as natural disaster or disease outbreak triggers risk of credit, which is beyond any control or cannot be mitigated through precautionary measures.

Exposure to credit risk is monitored on an ongoing basis by the respective management teams. For risk management reporting purposes, the Company considers and consolidates all above mentioned elements of credit risk exposure.

# BRAC International Holdings B.V.

BRAC International Holdings B.V. does not have any significant exposure to any individual customer or counterparty. The service of providing unsecured loans to group members is the main aspect of the group's business. As such, exposure to credit risk and the management of this risk is a key consideration for the Board.

The Company recognises that the aim of risk management is not to eliminate risk totally, but rather to provide the structural means to identify, prioritize and manage the risks involved in all activities. It requires a balance between the cost of managing and treating risks, and the anticipated benefits that will be derived.

Policy objectives:

- Protect the Company and its subsidiaries from risks of significant likelihood and consequence in the pursuit of the stated strategic goals and objectives.
- Provide a consistent risk management framework in which the risks concerning the Company will be identified, considered and addressed in key approval, review and control processes.
- Encourage pro-active rather than re-active management.
- Provide assistance to and improve the quality of decision making throughout the group.
- Meet legal or statutory requirements.
- Assist in safeguarding companies assets: people, finance, property and reputation.
- Financial instruments only can be used to mitigate risks, these cannot be used for trading and speculation purposes.

The Management Board is responsible on behalf of the Company for ensuring that a risk management system is established, implemented and maintained in accordance with this policy.

The risk management function is responsible to oversight and assurance of the processes for the identification and assessment of the strategic-level risk environment and ensures that those are in conformity with global standards.

## *Currency risk*

BRAC International Holdings B.V. is exposed to currency risk denominated in a currency other than the respective functional currencies of group entities. The functional currencies in the subsidiaries are their respective local currency and at group level, the US dollar (USD) is the functional and presentation currency. BRAC International Holdings B.V. and its subsidiaries do not use hedging mechanism to reduce currency risk. In case of high-inflation economies such as Sierra Leone hedging is extremely difficult and management tries to get access of local funding as much as possible.

## *Interest rate risk and cash-flow risk*

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

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## *Market risk*

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both which are exposed to general and specific market movements and changes in the level of volatility.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Overall responsibility for management market risks rests with the Country Representatives. Management is responsible for the development of detailed risk management policies and for the day-to-day implementation of those policies.

## *Liquidity risk*

Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously and cost effectively. The risk arises from both the difference between the magnitude of assets and liabilities and the disproportion in their maturities. Liquidity risk management deals with the overall profile of the balance sheet, the funding requirements of the Company and cash flows. In quantifying the liquidity risk, future cash flow projections are simulated and necessary arrangements are put in place in order to ensure that all future cash flow commitments are met from the working capital generated by the Company and also from available financial institution facilities.

BRAC International Holdings B.V. manages its debt maturity profile, operation cash flows and the availability of funding so as to meet all refinancing, repayment and funding needs. As part of its overall liquidity management, the organisation maintains sufficient level of cash or fixed deposits to meet its working capital requirements in addition to sufficient arrangements of financing facilities from banks and financial institutions.

## **Financial reporting risks**

Risks related to false reporting to stakeholders, e.g. investors and financial institutions, lack of sound financial policy, systems and processes are being mitigated through multi-layered internal control systems, that makes the monitoring process stronger.

The Internal Audit function regularly monitors the control check points. The in-country Internal Audit team carries out audit at a branch level throughout the year while the Internal Audit team at the head office performs a country-office audit annually. The Management team is updated with the audit findings and recommendations on a monthly basis. The Internal Audit team at the head office reports to the Audit and Finance Committee, maintaining full independence from the Management.

The Internal Audit team ensures through a periodical checks that the company is in compliance with all applicable laws and regulations.

External audit is conducted on an annual basis.

# BRAC International Holdings B.V.

## **Code of Conduct**

BRAC International Holdings B.V. follows a set of codes of conduct to operate in a multi-cultural environment. This Code of Conduct is based upon the principles of BRAC in Bangladesh. The Human Resources department of the organisation is the custodian of the codes of conduct and is responsible for overall supervision, implementation and practice across the organisation.

The general codes of conduct include general HR policies and procedures, such as codes of conduct on ethical behaviour, fraud management and sexual harassment in the organisation. The 'whistle blower' policy is in place and HR takes actions as and when required.

## **Management Board's responsibility statement**

The Management Board is responsible for the preparation and fair presentation of the financial statements, comprising the balance sheet as at 31 December 2017, the profit and loss account and the cash flow statement for the year then ended, and the notes to the financial statements.

The Management Board's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board's responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The Company has open and constructive communication methods to inform all stakeholders on a regular and proactive basis.

The directors have made an assessment of the organisation's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

# BRAC International Holdings B.V.

## The internal organisation and staffing level

The Company is under the management of the Management Board, who appointed officers who in turn appoint Country Representatives. The day-to-day management is entrusted to the Country Representative who is assisted by the heads of divisions, departments and units.

Microfinance entities consolidated within BRAC International Holdings B.V. currently employ 4,988 personnel (2016: 4,337).

Uganda:	1,918	(2016:1,573).
Tanzania:	1,571	(2016:1,495).
Sierra Leone:	326	(2016: 223).
Pakistan:	506	(2016: 518).
Liberia:	276	(2016: 233).
Myanmar:	389	(2016: 293).
Netherlands:	2	(2016: 2).
Sri Lanka:	0	(2016: 0).

## Financial information

The Company has been able to utilize 66% of its approved budget in 2017. Country wise budget vs. actuals and approved budget 2017 and 2018 has been given below:

Country	Approved budget 2017	Actual expense 2017	Actual versus budget 2017	Approved budget 2018
	'000 USD	'000 USD	%	'000 USD
Uganda	41,924	17,932	43	30,425
Tanzania	21,508	19,589	91	18,525
Pakistan	4,759	4,696	99	7,006
Myanmar	10,769	5,854	54	9,279
Sierra Leone	2,355	3,137	133	2,862
Liberia	2,937	2,366	81	3,542
Netherlands and Secretariate	2,402	1,510	63	2,833
	<b>86,654</b>	<b>55,083</b>	<b>64</b>	<b>74,472</b>

The Company's financial performance during the year ended 31 December 2017 is as follows:

**Service charge** on loans increased by 11% from USD 47,489,395 in 2016 to USD 52,676,880 in 2017.

**Operating expenses** increased by 23% from USD 27,405,871 in 2016 to USD 33,844,232 in 2017. This increase relates to the increased number of employees due to opening of new branches in Myanmar, Tanzania, increased impairment costs and transformation costs for Uganda

# BRAC International Holdings B.V.

As a result, the net result of the group increased to USD 14,148,087 (2016 profit was USD 14,036,195).

**Loans and advances to customers** increased by 8% from USD 102,323,890 in 2016 to USD 110,870,639 in 2017.

This year BRAC Uganda Microfinance Company followed a more stringent approach for loan write-off to comply with Bank of Uganda requirement. This resulting an additional write-off of USD 1.1 million in 2017.

**Cash and cash equivalents** increased by 37% to USD 28,223,806 in 2017 from USD 20,594,732. The cash movements have been adequately disclosed in the cash flow statement. The major driver of changes in cash flow is the higher realization of loans from customers in microfinance operations.

Current liabilities decreased from USD 68,837,071 to USD 50,171,642 which is a result of the decrease of the current portion of the borrowing and settlement of other liabilities.

The increase in assets and loans is mainly due to increase in disbursement in all Microfinance operations.

## Financial position as per balance sheet and profit and loss account

Operating self-sufficiency	= Operating income/total cost = USD 56,237,558 /USD 37,984,824 = 148% (2016: 168%)
Return on performing assets	= Net income before tax/average total assets = USD 18,252,734 /USD 138,293,444 = 13% (2016: 18%)
Return on equity	= Net income before tax/total equity = USD 18,252,734 /USD 74,918,110 = 24% (2016: 42%)
Cash position indicator	= Cash and deposits into banks / average total assets = USD 28,223,806 /USD 138,293,444 = 20% (2016: 17%)
Impairment reserve ratio	= Impairment reserve/gross loan to customer = USD 4,498,643 /USD 115,800,688 = 4% (2016: 4%)

## Solvency ratio

The solvency ratio (Result after Tax + Depreciation and amortisation / Total Non-current and current liability) of the Company 2017 is 20% (2016: 18%). This shows the Company is financially stronger to manage its objectives than last year.

## Quick (liquidity) ratio

The quick ratio [(current assets - inventories)/current liabilities] of the Company is 2.84 (2016: 1.82). It shows the Company has sufficient strength to manage its liabilities.

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## Activities in 2017

### Microfinance and Social enterprise

During the year, Soros Economic Development Fund (SEDF), a 24.5% shareholder in two BRAC West African entities (Sierra Leone and Liberia), donated its shares to BRAC International holdings B.V. As a result, the company now holds 100% shares in both West African companies. The companies continues to generate surplus this year. To fuel additional growth BRAC International Holdings BV also disbursed USD 500,000 each as share premium to both the companies.

The Myanmar entity achieved break even, to support further growth, a corporate guarantee of approximately USD 1 million (equivalent to kyat 1.3 billion) to May Bank for a term loan facility in Myanmar Microfinance Operation, has been provided by the Company.

The transformation for Uganda microfinance to a tier-II company is also on going. The company has engaged an external consultant to find selected similar partners for a potential investment / share dilution in the Uganda entity.

The Pakistan entity maintained its profitability and has been able to offset all past losses in 2017.

The Tanzania entity continued to generate surplus. This year the company opened eleven (11) new branches in Tanzania.

## Outlook for 2018

### Investment

The business plan for 2018 is ambitious and in line with the country potential, given the fact that the external and business environment is getting more difficult every year. Changes in the regulatory environment for microfinance programmes in different countries are taking place, such as interest rate caps and borrowing limits on foreign currency loans. This will impact the business in terms of both top line and bottom line of the financial statements. However, some of the countries, mainly in Africa, having significant inflation, are exposed to foreign currency loss, that might dent the overall consolidated financial statements to an extent in the bottom line.

The transformation of BRAC Uganda Microfinance Ltd is likely to continue in 2018 with the share dilution process expected by the end of the year. The license application process is in progress and it is expected that we shall be awarded with a Tier-II License during 2018.

The company is planning to start similar process of transformation of its entity in Pakistan in 2018.

### Financing

The financing of these ventures is coming from a mixed variety of sources. At the country level, Microfinance income is our largest source, external debt being second. In the

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Company, the major source is the capital provided by Stichting BRAC International. No significant changes are expected in the current financing structure.

## **HR**

The Company is investing on a continuous basis in the quality of their staff (2017: 4,988 people; 2016: 4,337). Number of female staff was around 85% (2016: 79%). For 2018 management expects the staff number to be increased by 10%.

## **Signing-off of board**

The Management Board prepared the financial statements and recommends that the AGM adopts the financial statements 2017.

The Hague, 21 June 2018

1. Mr. Faruque Ahmed
2. Mr. Hans Eskes



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## Consolidated balance sheet as at 31 December 2017

(before appropriation of result)

		2017		2016	
		USD	USD	USD	USD
<b>Fixed assets</b>					
Intangible fixed assets	1	297,190		235,168	
Tangible fixed assets	2	2,216,744		1,434,498	
Financial fixed assets	3	2,431,087		2,121,553	
		<hr/>	4,945,021	<hr/>	3,791,219
<b>Current assets</b>					
Inventories	4	121,822		84,786	
Loans and advances to customers	5	110,870,639		102,323,890	
Trade and other receivables	6	3,192,999		2,437,974	
Cash and cash equivalents	7	28,223,806		20,594,732	
		<hr/>	142,409,266	<hr/>	125,441,382
			<hr/> <hr/>		<hr/> <hr/>
			147,354,287		129,232,601
<b>Group equity</b>					
Shareholder's equity	24	74,918,110		48,607,471	
Minority interests	8	–		989,970	
		<hr/>	74,918,110	<hr/>	49,597,441
<b>Non-current liabilities</b>					
	9		22,264,535		10,798,089
<b>Current liabilities</b>					
	10		50,171,642		68,837,071
			<hr/> <hr/>		<hr/> <hr/>
			147,354,287		129,232,601

The notes on pages 21 to 60 are an integral part of these consolidated financial statements.

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## Consolidated profit and loss account for the year ended 31 December 2017

		2017		2016	
		USD	USD	USD	USD
Service charge income	12	52,676,880		47,489,395	
Other operating income	13	3,560,678		4,578,083	
<b>Total operating income</b>			<b>56,237,558</b>		<b>52,067,478</b>
Cost of outsourced work and other external cost	14	(10,563,476)		(9,128,020)	
Wages and salaries	15	(15,897,525)		(13,736,126)	
Social security and pension charges	16	(1,229,658)		(1,049,256)	
Amortisation and depreciation on intangible and tangible fixed assets	1,2	(437,574)		(421,220)	
Impairment losses on loans and advances to customers	5	(3,298,199)		(939,703)	
Other operating expenses	17	(2,417,800)		(2,131,546)	
<b>Total operating expenses</b>			<b>(33,844,232)</b>		<b>(27,405,871)</b>
<b>Operating result</b>			<b>22,393,326</b>		<b>24,661,607</b>
Interest income and similar income		1,067,462		815,716	
Interest expenses and similar charges		(5,208,054)		(4,456,706)	
			<b>(4,140,592)</b>		<b>(3,640,990)</b>
<b>Result from ordinary activities before tax</b>			<b>18,252,734</b>		<b>21,020,617</b>
Corporate income tax	18	(3,956,082)		(6,960,515)	
<b>Result after tax</b>			<b>14,296,652</b>		<b>14,060,102</b>
Minority interests			<b>(148,565)</b>		<b>(23,907)</b>
<b>Net result</b>			<b>14,148,087</b>		<b>14,036,195</b>

The notes on pages 21 to 60 are an integral part of these consolidated financial statements.

# BRAC International Holdings B.V.

## Consolidated statement of comprehensive income for the year ended 31 December 2017

	USD	2017	USD	USD	2016	USD
<b>Consolidated net result after attributable to the Company</b>			<b>14,148,087</b>			<b>14,036,195</b>
Translation differences on foreign participating interests						
	<b>(685,532)</b>			<b>(2,127,196)</b>		
<b>Total of items recognised directly in shareholder's equity of the Company as part of the group entity</b>			<b>(685,532)</b>			<b>(2,127,196)</b>
<b>Total result of the legal entity</b>			<b>13,462,555</b>			<b>11,908,999</b>

The notes on pages 21 to 60 are an integral part of these consolidated financial statements.

# BRAC International Holdings B.V.

## Consolidated statement of changes for the year ended 31 December 2017

	Issued capital	Share premium reserve	Foreign currency translation reserve	Legal reserve participation	Retained earnings	Unappro- priated result	Total
	USD	USD	USD	USD	USD	USD	USD
Balance as at 1 January 2016	8,303,304	694,887	(4,068,306)	27,899,633	4,460,348	(2,040,679)	35,249,187
Changes:	–	–	–	–	–	–	–
— Transfer of unappropriated results	–	–	–	–	(2,040,679)	2,040,679	–
— Translation difference share capital	(296,248)	–	296,248	–	–	–	–
— Translation difference participations	–	–	(513,192)	(1,614,004)	–	–	(2,127,196)
— Informal capital contribution Sierra Leone and Liberia	–	1,449,285	–	–	–	–	1,449,285
— Result for the year	–	–	–	14,385,491	–	(349,296)	14,036,195
Balance as at 31 December 2016	<u>8,007,056</u>	<u>2,144,172</u>	<u>(4,285,250)</u>	<u>40,671,120</u>	<u>2,419,669</u>	<u>(349,296)</u>	<u>48,607,471</u>
Balance as at 1 January 2017	<b>8,007,056</b>	<b>2,144,172</b>	<b>(4,285,250)</b>	<b>40,671,120</b>	<b>2,419,669</b>	<b>(349,296)</b>	<b>48,607,471</b>
Changes:							
— Transfer of unappropriated results					(349,296)	349,296	–
— Translation difference share capital	<b>1,096,680</b>		<b>(1,096,680)</b>				–
— Translation difference participations			<b>564,056</b>	<b>(1,249,588)</b>			<b>(685,532)</b>
— Conversion of liability (ref. – note 19)		<b>11,816,372</b>					<b>11,816,372</b>
— Informal capital contribution Stichting BRAC International (ref. – note 22)		<b>1,031,712</b>					<b>1,031,712</b>
— Result for the year				<b>12,760,301</b>	<b>383,727</b>	<b>1,004,059</b>	<b>14,148,087</b>
Balance as at 31 December 2017	<u><b>9,103,736</b></u>	<u><b>14,992,256</b></u>	<u><b>(4,817,874)</b></u>	<u><b>52,181,833</b></u>	<u><b>2,454,100</b></u>	<u><b>1,004,059</b></u>	<u><b>74,918,110</b></u>

Legal reserve is restricted to the specific country operations and cannot be used for any other use. The profits and net equity of Uganda, Tanzania, Pakistan and Zanzibar operations are under this category.

The notes on pages 21 to 60 are an integral part of these consolidated financial statements.

# BRAC International Holdings B.V.

## Consolidated cash flow statement for the year ended 31 December 2017

		2017		2016	
		USD	USD	USD	USD
<b>Net result</b>			<b>14,148,087</b>		14,036,195
Adjusted for:					
— Depreciation/amortisation/ other value adjustments	1, 2	437,574		421,220	
— Impairment/write-off in loans	5	3,298,199		939,703	
— Incremental stake in Sierra Leone and Liberia		1,031,712		696,760	
— Interest income and expenses		4,140,592		3,640,990	
— Tax on result from ordinary activities	18	3,956,082		6,960,515	
— Change in consolidation scope		—		—	
— Change in minority interest	8	(989,970)		(527,636)	
— Other movements in loans		(1,099,471)		(2,212,571)	
— Changes in working capital:					
- Increase inventories		(37,036)		(17,802)	
- Increase other receivables		(755,025)		117,094	
- (Decrease) / increase other liabilities		(11,484,926)		5,169,912	
			<b>(1,502,269)</b>		15,188,184
<b>Cash flow from business operations</b>			<b>12,645,818</b>		29,224,380
Interest paid		(4,777,369)		(4,292,554)	
Income tax paid		(5,104,448)		(5,927,062)	
			<b>(9,881,817)</b>		(10,219,616)
<b>Cash flow from operating activities</b> (carried forward)			<b>2,764,001</b>		19,004,764

# BRAC International Holdings B.V.

		2017		2016	
		USD	USD	USD	USD
Brought forward			2,764,001		19,004,764
Investments in:					
— Tangible fixed assets	2	(1,245,601)		(577,049)	
— Intangible fixed assets	1	(173,053)		(69,815)	
— Acquisition of group companies		—		—	
Disposals of (in)tangible fixed assets	2	142,934		13,512	
Loans to customers distributed	5	(245,179,895)		(222,352,297)	
Loans to customers repayment	5	234,833,831		203,330,481	
<b>Cash flow from investing activities</b>			<b>(11,621,784)</b>		<b>(19,655,168)</b>
Increase in borrowings	9	26,357,548		7,945,194	
Repayment of borrowings	9	(21,559,712)		(7,430,240)	
Donor grant received	10	689,567		2,045,058	
Share premium contribution		12,848,084		752,525	
<b>Cash flow from financing activities</b>			<b>18,335,487</b>		<b>3,312,537</b>
<b>Net cash flow</b>			<b>9,477,704</b>		<b>2,662,133</b>
Exchange rate and translation differences on cash and cash equivalents			<b>(1,848,630)</b>		<b>(3,790,227)</b>
<b>Changes in cash and cash equivalents</b>			<b>7,629,074</b>		<b>(1,128,095)</b>
<b>Cash and cash equivalents as at the beginning of the financial year</b>			<b>20,594,732</b>		<b>21,722,827</b>
Changes in cash and cash equivalents			<b>7,629,074</b>		<b>(1,128,095)</b>
<b>Cash and cash equivalents as at the end of the financial year</b>			<b>28,223,806</b>		<b>20,594,732</b>

The notes on pages 21 to 60 are an integral part of these consolidated financial statements.

# BRAC International Holdings B.V.

## Notes to the 2017 financial statements

### General

#### The reporting entity

BRAC International Holdings B.V. ('the Company'), having its legal address in The Hague and its office address at Bezuidenhoutseweg 2, 2594 AV The Hague is a private limited liability company under Dutch law, with 100% of its shares held by Stichting BRAC International.

BRAC International Holdings B.V.'s vision is in line with the vision of its parent Stichting BRAC International and BRAC Bangladesh, that they develop into a just, enlightened, healthy and democratic society free from hunger, poverty, environmental degradation and all forms of exploitation based on age, sex and ethnicity. In order to achieve this vision, BRAC International Holdings B.V., through its subsidiaries uses a comprehensive approach to poverty reduction which strategically links programmes in Economic Development (Microfinance and Social Enterprise), to create and protect the livelihoods of poor people.

The Company's business model strongly reflects its philosophy, the core elements of the business model are BRAC's community outreach – based delivery methodology and its unwavering focus on borrowers at the poorer end of the poverty spectrum. These two principles – which distinguish the Company and its subsidiaries from other microfinance and social business operators in Asia and Africa, are apparent in the way BRAC has designed its operations.

#### Financial reporting period

The financial statements are for the year from 1 January 2017 to 31 December 2017. The comparatives consist of the year 2016, which ended as at 31 December 2016.

#### Basis of preparation

The consolidated financial statements of the Company are part of the statutory financial statements of the Company and have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code.

The accounting policies applied for measuring assets and liabilities and the determination of result are based on the historical cost convention, unless otherwise stated in the further principles.

#### Going concern

These financial statements of the Company have been prepared on the basis of the going concern assumption.

# BRAC International Holdings B.V.

## Accounting policies

### General

Assets and liabilities are measured at nominal value, unless otherwise stated in the further principles.

An asset is recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognised in the balance sheet are considered as off-balance sheet assets.

A liability is recognised in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Provisions are included in the liabilities of the Company. Liabilities that are not recognised in the balance sheet are considered as off-balance sheet liabilities.

An asset or liability that is recognised in the balance sheet, remains on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Such transactions will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur, are not taken in to account in this assessment.

An asset or liability is no longer recognised in the balance sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability being transferred to a third party. Further, assets and liabilities are no longer recognised in the balance sheet if economic benefits are no longer probable and/or cannot be measured reliably anymore. In such cases, the results of the transaction are directly recognised in the profit and loss account, taking into account any provisions related to the transaction.

If assets are recognised of which the Company does not have the legal ownership, this fact is being disclosed.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

Revenues and expenses are allocated to the respective period to which they relate. Revenues are recognised when the Company has provided the services to the customer based upon the finance agreements.

### Functional and presentation currency

The financial statements are presented in United States Dollars (USD), which is the Company's functional currency.



# BRAC International Holdings B.V.

## Consolidation principles

### *Consolidation scope*

The consolidated financial statements include the financial information of the Company, its group companies and other companies over which the Company can exercise control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Group companies are participating interests in which the Company has a direct or indirect controlling interest. In assessing whether controlling interest exists, potential voting rights are taken into account that are currently exercisable and as a result will provide the Company with more or less influence.

Group companies exclusively held with the view to resale are exempted from consolidation if the intention to resale was already present at the acquisition date, resale within one year is probable and at the acquisition date (or shortly thereafter) other indicators for this purpose are being met. These interests are presented as securities, under current assets (exclusively held for sale).

Newly acquired participating interests are consolidated as from the date that decisive influence (control) can be exercised. Participating interests disposed of remain included in the consolidation until the date of loss of this influence.

### *Consolidation method*

The consolidated financial statements are prepared by using uniform accounting policies for measurement and determination of the result of the group.

In the consolidated financial statements, intragroup shareholdings, debts, receivables and transactions are eliminated. Also, the results on transactions between group companies are eliminated to the extent that the results are not realised through transactions with third parties outside the group and no impairment loss is applicable. For a transaction whereby the Company has a less than a 100% interest in the selling group company, the elimination from the group result is allocated pro rata to the minority interest based on the interest of the minority in the selling group company.

Subsidiaries are consolidated in full, whereby the minority interest is presented separately within equity. If losses to be allocated to the minority interest exceed the minority interest within equity of the consolidated entity, the difference, including any further losses, is fully charged to the majority shareholder. The minority interest in the result is deducted from group result on a separate line item in the consolidated profit and loss account.

BRAC International Holdings B.V. has participating interest in the following companies:

<b>Name</b>	<b>Legal address</b>	<b>2017 Share of interest %</b>	<b>2016 Share of interest %</b>
BRAC Microfinance (SL) Ltd	Freetown, Sierra Leone	100	75.5
BRAC Liberia Microfinance Ltd	Monrovia, Liberia	100	75.5
BRAC Lanka Investments (Private) Ltd	Colombo, Sri Lanka	100	100
BRAC Myanmar Microfinance Company Ltd	Yangon, Myanmar	100	100
BRAC Social Business Enterprise Uganda Ltd.	Kampala, Uganda	100	100
BRAC Uganda Microfinance Ltd	Kampala, Uganda	–	–

# BRAC International Holdings B.V.

BRAC Tanzania Finance Ltd	Dar es Salaam, Tanzania	-	-
BRAC Pakistan	Islamabad, Pakistan	-	-
BRAC	Mbweni, Zanzibar	-	-

The entities with no share of interest are locally established limited companies by guarantee and having no share capital. BRAC International Holdings B.V. has control over the governance and operational policy of these entities and is able to appoint directors. The goals of the consolidated group companies are aligned with the goals of the Company as set out in the Management Board report. Within these consolidated group companies, at least one of the executives of the Company is involved as member of the Board of Directors.

## Principles for the translation of foreign currency

### *Transactions in foreign currencies*

At initial recognition, transactions denominated in foreign currency are translated into the relevant functional currency of the group companies at the exchange rate applying on the transaction date.

Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Exchange differences resulting from the settlement of monetary items, or resulting from the translation of monetary items denominated in foreign currency, are recognised in the profit and loss account in the period in which the exchange difference arise, except for exchange differences on monetary items that are part of a net investment in a foreign operation.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost, are translated into the functional currency at the exchange rates applying on the transaction date.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at current value, are converted into the functional currency at the exchange rate at the time when the actual current value was determined. Exchange rate differences arising from the translation are directly recognised in equity as part of the revaluation reserve.

### *Foreign operations*

The assets and liabilities that are part of the net investment in a foreign operation are translated into the functional currency at the exchange rate prevailing at the balance sheet date. The revenues and expenses of such a foreign operation are translated into the functional currency at the exchange rate on the transaction date. Currency translation differences are recognised in the translation reserve within equity.

Goodwill resulting from the acquisition of a foreign operation and fair value adjustments made at the acquisition date are translated into the functional currency at the exchange rate at the balance sheet date.

A group company that has received a loan from the parent recognises any translation differences in the profit and loss account, even if the loan is regarded by the parent as part of a net investment in a foreign operation.

# BRAC International Holdings B.V.

When a foreign operation is fully or partially sold, the cumulative amount that relates to that foreign operation is transferred from the translation reserve to the profit and loss account.

## *Hedging of the net investment in foreign operations*

Currency translation differences arising from the translation of a financial liability considered as a hedge of the net investment in a foreign operation, are directly recognised in equity (in the translation reserve) to the extent that the hedge is effective. The ineffective part is recognised as an expense in profit and loss.

## **Use of estimates and judgments**

The preparation of financial statements in conformity with the Netherlands Civil Code requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and the future periods if the revision affects both current and future periods.

The following accounting policies are in the opinion of management the most critical in preparing this financial statements and require judgments, estimates and assumptions:

- The valuation of the loans and advances to customers.

## **Financial instruments**

Financial instruments include investments in shares, trade and other receivables, cash items, loans and other financing commitments, derivative financial instruments, trade payables and other amounts payable. These financial statements contain the following financial instruments: loans and receivables (both purchased and issued), equity instruments and other financial liabilities.

Financial assets and liabilities are recognised in the balance sheet at the moment that the contractual risks or rewards with respect to that financial instrument originate.

Financial instruments are derecognised if a transaction results in a considerable part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party.

Financial instruments (and individual components of financial instruments) are presented in the consolidated financial statements in accordance with the economic substance of the contractual terms. Presentation of the financial instruments is based on the individual components of financial instruments as a financial asset, financial liability or equity instrument.

Financial instruments are initially measured at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are

# BRAC International Holdings B.V.

subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

After initial recognition, financial instruments are valued in the manner described below.

## *Loans granted and other receivables*

Loans granted and other receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses. The effective interest and impairment losses, if any, are directly recognised in the profit and loss account.

## *Investments in unlisted equity instruments*

Investments in unlisted shares are measured after their initial recognition at the lower of cost or market value. Purchases and sales of financial assets that belong to the category investments in unlisted equity instruments are accounted for at the transaction date. Dividends are recorded in the profit and loss account at the time when are declared.

## *Non-current and current liabilities and other financial commitments*

Non-current and current liabilities and other financial commitments are measured after their initial recognition at amortised cost on the basis of the effective interest rate method. The effective interest is directly recorded in the profit and loss account.

Redemption payments regarding Non-current liabilities that are due next year, are presented under current liabilities.

## *Derivatives*

The Company does not make use of derivatives.

## **Intangible fixed assets**

Intangible fixed assets are only recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of that asset can be measured reliably.

Intangible fixed assets are stated at acquisition or construction cost, less accumulated amortisation and impairment losses.

Expenditures made after the initial recognition of an acquired or constructed intangible fixed asset are included to the acquisition or construction cost if it is probable that the expenditures will lead to an increase in the expected future economic benefits, and the expenditures and the allocation to the asset can be measured reliably. If expenditures do not meet these conditions, they are recognised as an expense in the profit and loss account.

At the end of each reporting year, the recoverable amount of intangible assets that 'are not yet put into use/are amortised over a useful life of more than twenty years' is assessed for impairment, even if there is no indication of impairment. The accounting principles for the recognition of an impairment are included under the section Impairments of fixed assets.

# BRAC International Holdings B.V.

## *Software licenses*

Software licenses are stated at cost less accumulated amortisation and impairment losses.

The capitalised amount is amortised on a straight-line basis during the five-year term of the contract.

## **Tangible fixed assets**

### *Recognition and measurement*

Tangible fixed assets are recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the cost of that asset can be measured reliably.

Land and buildings, plant and equipment and other fixed operating assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Donor grants for specific assets are deferred and released to the profit and loss account in accordance with the depreciation period of the related assets.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying value of property and equipment and recognised net with other income in profit or loss.

### *Depreciation*

Depreciation is recognised in profit or loss and calculated to write off the cost of the property and equipment on a straight basis over the expected useful lives of the assets concerned, and intangible assets on a straight line basis. Land is not depreciated.

The estimated depreciation rates for the current and comparative periods are as follows:

- Equipment : 15-33%.
- Motor vehicles : 20%.
- Other : 10%.

Tangible fixed assets, for which the Company and its group companies possess the economic ownership under a financial lease, are capitalised. The obligation arising from the financial lease contract is recognised as a liability. The interest included in the future lease instalments is charged to the profit and loss account during the term of the finance lease contract.

Assets that are taken out of service are stated at the lower of book value or net realisable value.

# BRAC International Holdings B.V.

## Financial fixed assets

### *Participating interests with significant influence*

Participating interests where significant influence can be exercised over the business and financial policy are valued according to the equity method on the basis of net asset value. If measurement at net asset value is not possible because the information required for this cannot be obtained, the participating interest is measured according to the visible equity.

The net asset value is calculated on the basis of the Company's accounting policies. If the Company transfers an asset or a liability to a participating interest that is measured according to the equity method, the gain or loss resulting from this transfer is recognised to the extent of the relative interests of third parties in the participating interest (proportionate determination of result). Any loss that results from the transfer of current assets or an impairment of fixed assets is fully recognised. Results on transactions involving transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests are eliminated to the extent that these cannot be regarded as having been realised.

Participating interests with a negative net asset value are valued at nil. This measurement also covers any receivables provided to the participating interests that are, in substance, an extension of the net investment. In particular, this relates to loans for which settlement is neither planned nor likely to occur in the foreseeable future. A share in the profits of the participating interest in subsequent years will only be recognised if and to the extent that the cumulative unrecognised share of loss has been absorbed. If the Company fully or partially guarantees the debts of the relevant participating interest, or if it has the constructive obligation to enable the participating interest to pay its debts (for its share therein), then a provision is recognised accordingly to the amount of the estimated payments by the Company on behalf of the participating interest.

This provision is primarily charged to the non-current receivables on the respective participating interest that can be regarded as part of the net investment, and for the remainder it is presented under provisions.

### *Other financial fixed assets*

Receivables from non-consolidated participating interests are initially measured at fair value plus directly attributable transaction costs. Subsequently, these receivables are measured at amortised cost using the effective interest method, less impairment losses.

The further accounting policies for other financial fixed assets are included under the heading financial instruments.

Dividends are accounted for in the period in which they are declared. Dividends from participating interests that are carried at cost, are recognised as income from participating interests (under financial income) in the period in which the dividends become payable.

### *Offsetting financial instruments*

A financial asset and a financial liability are offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has

# BRAC International Holdings B.V.

the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously.

If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

## **Impairment of fixed assets**

Intangible, tangible and financial fixed assets are assessed at each reporting date whether there is any indication of an impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the higher of value in use and net realisable value. If it is not possible to assess the recoverable amount for an individual asset, the recoverable amount is assessed for the cash-generating unit to which the asset belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised for the difference between the carrying amount and the recoverable amount.

Subsequently, at each reporting date, the entity assesses whether there is any indication that an impairment loss that was recorded in previous years has been decreased. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

Reversal of a previously recognised impairment loss only takes place when there is a change in the assessment used to determine the recoverable amount since the recognition of the last impairment loss. In such case, the carrying amount of the asset (or cash-generating unit) is increased to its recoverable amount, but not higher than the carrying amount that would have applied (net of depreciation) if no impairment loss had been recognised in previous years for the asset (or cash-generating unit).

Contrary to what is stated before, at each reporting date the recoverable amount is assessed for the following assets (irrespective of whether there is any indicator of an impairment):

- intangible assets that have not been put into use yet;
- intangible assets that are amortised over a useful life of more than 20 years (counting from the moment of initial operation/use).

## **Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost includes the expenses for acquisition or manufacture, plus other expenditure to bring the inventories to their present location and condition. Net realisable value is based on the most reliable estimate of the amount the inventories will generate at the most, less costs still to make.

Raw materials and consumables are carried at the lower of cost price and fair value in accordance with the first-in, first-out (FIFO) principle and market value.

The measurement of inventories includes possible impairments that arise on the balance sheet date.

# BRAC International Holdings B.V.

## Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and advances are shown at the gross amount adjusted for any provision for impairment losses.

Loans originated by the Company by providing finance directly to borrowers is categorized as loans to group members and is carried at amortised cost, which is defined as fair value of the cash consideration given to originate those loans as is determinable by reference to market prices at origination date and subsequently measured at the original effective interest rate at reporting date. All loans and advances are recognised when cash is advanced to borrowers.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## *Impairment of financial assets*

At each statement of financial position date BRAC International Holdings B.V. and its subsidiaries assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

Management assesses the adequacy of allowance for impairment based on the age of the loan portfolio.

The Company considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

The Company estimates losses on loans and advances as follows:

- 1 Given the volume and value of individual loans and advances and the fact that they are unsecured, it is not practical to estimate the future cash flows in order to derive the net present value for purpose of impairment. For this reason therefore, industry practice is used to estimate the specific provision for loans and advances. Specific provision for the loans and advances considered to be non-performing (impaired) based on the criteria, and classification of such loans and advances, as follows:

1-30 days:	1-5%.
31-90 days:	20-50%.



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91-180 days:	20-100%.
181-365days:	75-100%.
366 days and above past due:	100%.

- 2 In addition to the specific loan provisions, a general provision of 1-2% on current loans has been provided which was derived based on the Company's historic loss ratio. Loans within the maturity period are considered 'Current Loans'. Loans which remain outstanding after the expiry of their maturity period are considered as 'Late Loans'. Late loans which remain unpaid after one year of being classified as 'Late Loans' are considered as 'Non-interest bearing loans (NIBL)' and are referred to the Board for write-off. Apart from that, any loans can be written off subject to the approval of the Board where the Board thinks that they are not realisable due to death, dislocation of the borrower or any other natural or humanitarian disaster that affects the livelihood of the borrowers. Subsequently recoveries are credited as income in the statement of comprehensive income.
- 3 When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to other income in the statement of comprehensive income.

## *Impairment of financial fixed assets*

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## **Trade and other receivables**

Other receivables comprise prepayments, deposits and other recoverable which arise during the normal course of business; they are carried at amortised cost on the basis of the effective interest method, less impairment losses. The effective interest and impairment losses, if any, are directly recognised in the profit and loss account. A provision for impairment of trade receivable is established when there is objective evidence that the counterparty will not be able to collect all amounts due according to the original terms of receivables. The amount of the provisions is the difference between the carrying amount and the recoverable amount.

## **Cash and cash equivalents**

Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement.

Cash and cash equivalents denominated in foreign currencies are translated at the balance sheet date in the functional currency at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

Cash and cash equivalents that are not readily available to the Company within 12 months are presented under financial fixed assets.

# BRAC International Holdings B.V.

## Shareholder's equity

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholder's equity. Payments to holders of these instruments are deducted from the shareholder's equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss account as financial income or expense.

## Share premium

Amounts contributed by the shareholder(s) of the Company in excess of the nominal share capital, are accounted for as share premium. This also includes additional capital contributions by existing shareholders without the issue of shares or issue of rights to acquire or acquire shares of the Company.

Costs and capital taxes associated with the issue of shares that are not capitalized are deducted from share premium, after taken into account tax effects. If the share premium is insufficient for such deductions, the amounts are deducted from retained earnings.

## Minority interests

Minority interests are measured at net fair value of the acquirer's share in identifiable assets, liabilities and contingent liabilities according to the Company's valuation principles.

## Provisions

A provision is recognised if the following applies:

- the Company has a legal or constructive obligation, arising from a past event;
- the amount can be estimated reliably; and
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

If all or part of the payments that are necessary to settle a provision are likely to be fully or partially compensated by a third party upon settlement of the provision, then the compensation amount is presented separately as an asset.

Provisions are stated at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses.

## Other liabilities

Other accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. After their initial recognition the other liabilities are measured at amortised cost on the basis of the effective interest rate method. The effective interest is directly recorded in the profit and loss account.

# BRAC International Holdings B.V.

## **Non-current liabilities**

The valuation of Non-current liabilities is explained under the heading 'Financial instruments'.

## **Current liabilities**

The valuation of current liabilities is explained under the heading 'Financial instruments'.

## **Revenue recognition**

Revenue is recognised on an accrual basis.

### *Service charge on loans and advances*

Interest income on loans and advances (service charges) on regular loans that is, loans where no amounts are overdue as at the end of the reporting period are recognised on an accrual basis as income. The recognition of service charges ceases when the loan is transferred to non-interest bearing loan. These loans are referred to as 'non-performing' loans.

Service charge previously accrued but not received on loans subsequently classified as non-performing and written-off. Service charge is included in other income thereafter only when its receipt becomes probable, generally when it is realised.

### *Membership fees and other charges*

Membership fees and other charges are recognised on an accrual basis when the service has been provided.

### *Donor grants and grant income*

All donor grants received are initially recognised as grant received in advance at fair value and recorded as liabilities.

Donor grants are recognised if there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as grant income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

BRAC normally raises its fund through discussion with various donors and stakeholders. It also follows a competitive process where it submits its proposal to multinational donor organisations and gets selected based on merit. BRAC does not incur any additional costs for fundraising purpose other than over heads which are recorded under HO logistic and management expenses.

### *Other income*

Other income comprises income from sale of seeds, gains less losses related to trading assets and liabilities, and includes gains from disposal of assets and all realised foreign exchange differences.

# BRAC International Holdings B.V.

Sale of seeds are recognised when the significant risk and rewards are transferred to the customers.

## **Costs of outsourced work and other external costs**

This includes costs incurred in order to generate operating income, insofar as these costs have been charged by third parties and are not to be regarded as costs of raw materials and consumables.

## **Employee benefits**

Employee benefits are charged to the profit and loss account in the period in which the employee services are rendered and, to the extent not already paid, as a liability on the balance sheet. If the amount already paid exceeds the benefits owed, the excess is recognised as a current asset to the extent that there will be a reimbursement by the employees or a reduction in future payments by the Company.

For benefits with accumulating rights, bonuses, the projected costs are taken into account during the employment. An expected payment resulting from profit-sharing and bonus payments is recognised if the obligation for that payment has arisen on or before the balance sheet date and a reliable estimate of the liabilities can be made.

The Company also operates an employee bonus incentive scheme. The provision for employee bonus incentive is based on a predetermined company policy and is recognised in other accruals. The accrual for employee bonus incentive is expected to be settled within 12 months.

If a benefit is paid in case of non-accumulating rights (e.g., continued payment in case of sickness or disability), the projected costs are recognised in the period in which such benefit is payable. For existing commitments at the balance sheet date to continue the payment of benefits (including termination benefits) to employees who are expected to be unable to perform work wholly or partly due to sickness or disability in the future, a provision is recognised.

The recognised liability relates to the best estimate of the expenditure necessary to settle the obligation at the balance sheet date. The best estimate is based on contractual agreements with employees (collective agreement and individual employment contract). Additions to and reversals of liabilities are charged or credited to the profit and loss account.

## **Pensions**

### *Foreign pension plans*

Pension plans that are comparable in design and functioning to the Dutch pension system, having a strict segregation of the responsibilities of the parties involved and risk sharing between the said parties (Company, fund and members) are recognised and measured in accordance with Dutch pension plans (see below for an explanation about Dutch pension plans. Since the Company has two Dutch employees, this paragraph has been included to explain the accounting treatment only).

For foreign pension plans that are not comparable in design and functioning to the Dutch pension system, a best estimate is made of the commitment as at balance sheet date.

# BRAC International Holdings B.V.

This commitment should then be stated on the basis of an actuarial valuation principle generally accepted in the Netherlands.

## *Dutch pension plans*

The main principle is that the pension charge to be recognised for the reporting period should be equal to the pension contributions payable to the pension fund over the period. In so far as the payable contributions have not yet been paid as at balance sheet date, a liability is recognised. If the contributions already paid exceed the payable contributions as at balance sheet date, a receivable is recognised to account for any repayment by the fund or settlement with contributions payable in future.

In addition, a provision is included as at balance sheet date for existing additional commitments to the fund and the employees, provided that it is likely that there will be an outflow of funds for the settlement of the commitments and it is possible to reliably estimate the amount of the commitments. The existence or non-existence of additional commitments is assessed on the basis of the administration agreement concluded with the fund, the pension agreement with the staff and other (explicit or implicit) commitments to staff. The liability is stated at the best estimate of the present value of the anticipated costs of settling the commitments as at balance sheet date.

For any surplus at the pension fund as at balance sheet date, a receivable is recognised if the Company has the power to withdraw this surplus, if it is likely that the surplus will flow to the Company and if the receivable can be reliably determined.

## **Interest receivable and similar income and interest payable and similar charges.**

Interest income is recognised in the profit and loss account on an accrual basis, using the effective interest rate method. Interest expenses and similar charges are recognised in the period to which they belong.

Premium, discount and redemption premiums are recognised as interest expense in the period to which they belong. The allocation of these interest expenses and the interest income on the loan is the effective interest rate that is recognised in the profit and loss account. On the balance sheet, the amortised value of the debt(s) is recognised (on balance). The amounts of the premium that are not yet recognised in the profit and loss account and the redemption premiums already recognised in the profit and loss account, are recognised as an increase in debt(s) to which they relate. Amounts of the discount that are not yet recognised in the profit and loss account are recognised as a reduction of the debt(s) to which they relate.

Additional costs associated with the use of more than customary supplier credit are recognised as interest expense.

Interest expenses and similar charges are recognised in the period to which they belong. The interest is calculated on the basis of the interest payable on borrowings specifically for the microfinance operation and charged on an accrual basis.

## **Corporate income tax**

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit

# BRAC International Holdings B.V.

and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity, or to business combinations.

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

If the carrying amount of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences.

For taxable temporary differences, a provision for deferred tax liabilities is recognised.

For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognised, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

For taxable temporary differences related to group companies, foreign branches, associates and interests in joint ventures, a deferred tax liability is recognised, unless the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

For deductible temporary differences regarding group companies, foreign branches, associates and interests in joint ventures, a deferred tax asset is only recognised in so far as it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available to offset the temporary difference can be utilised.

The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which the Company expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value.

## **Share in result of participating interests**

The share in the result of participating interests consists of the share of the group in the results of these participating interests, determined on the basis of the accounting principles of the group. Results on transactions, where the transfer of assets and liabilities between the group and the non-consolidated participating interests and mutually between non-consolidated participating interests themselves, are not recognised as they can be deemed as not realised.

The results of participating interests acquired or sold during the financial year are measured in the group result from the date of acquisition or until the date of sale respectively.

## **Leasing**

The Company may enter into financial and operating leases. A lease agreement under which the risks and rewards of ownership of the leased object are carried entirely or almost entirely by the lessee are classified as finance leases. All other leases are classified as operating leases. For the lease classification, the economic substance of the transaction is conclusive rather than the legal form. The company has only entered into operating lease agreement.

# BRAC International Holdings B.V.

## *Financial leases*

If the Company acts as a lessee in a finance lease, at the inception of the lease the leased asset (and the related obligation) is accounted for in the balance sheet at fair value of the leased property or, if lower, the present value of the minimum lease payments. Both values are determined at the time of entering into the lease agreement. The interest rate used in calculating the present value is the interest rate implicit in the lease. If it is not practically possible to determine this interest rate, then the marginal interest rate is used. The initial direct costs are included in the initial measurement of the leased property.

The accounting principles for the subsequent measurement of the leased property are described under the heading 'Tangible fixed assets'. If there is no reasonable certainty that the Company will obtain ownership of a leased property at the end of the lease term, the property is depreciated over the shorter of the lease term and the useful life of the property.

The minimum lease payments are split into interest expense and redemption of the lease liability. The interest charges during the lease term are allocated to each period as such that its results in a constant periodic interest rate over the remaining net liability with regard to the financial lease. Conditional lease payments are recognised as an expense in the period that the conditions of payment are met.

## *Operating leases*

If the Company acts as lessee in an operating lease, the leased property is not capitalised. Lease payments regarding operating leases are recognised to the profit and loss account on a straight-line basis over the lease term.

## **Contingent liabilities**

The Company recognises a contingent liability where it has a possible obligation from past events, the existence of which will be confirmed only by the occurrence of one or more uncertain events not wholly within the control of the Company, or it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

## **Related party transactions**

Transactions with related parties are disclosed. All transactions are entered into at arm's length. Disclosed are the nature and amounts involved with such transactions, and other information that is deemed necessary for an insight into the transactions.

Related parties comprise directors, subsidiaries of BRAC International, BRAC Bangladesh (including related BRAC entities) and key management personnel of the Company and companies with common ownership and/or directors.

## **Cash flow statement**

The cash flow statement is prepared using the indirect method. Cash and cash equivalents include cash and investments that are readily convertible to a known amount of cash without a significant risk of changes in value.

# BRAC International Holdings B.V.

Cash flows in foreign currency are translated into US dollars using the weighted average exchange rates at the dates of the transactions. Foreign exchange differences with regard to cash and cash equivalents are presented separately in the cash flow statement.

Receipts and payments of interest, receipts of dividends and income taxes are presented within the cash flows from operating activities. Payments of dividends are presented within the cash flows from financing activities.

## **Determination of fair value**

The fair value of a financial instrument is the amount for which an asset can be sold or a liability settled, involving parties who are well informed regarding the matter, willing to enter into a transaction and are independent from each other.

The fair value of non-listed financial instruments is determined by discounting the expected cash flows to their present value, applying a discount rate that is equal to the current risk-free market interest rate for the remaining term, plus credit and liquidity surcharges.

## **Subsequent events**

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.



# BRAC International Holdings B.V.

## 1 Intangible fixed assets

	USD
Balance as at 1 January 2017:	
— Purchase price	458,078
— Accumulated amortisation and impairment	<u>(222,910)</u>
— Carrying amount	<u>235,168</u>
Changes in carrying amount:	
— Investments	173,053
— Amortisation	(102,057)
— Exchange rate differences purchase price	(18,569)
— Exchange rate differences accumulated depreciation	9,595
— Change in carrying amount	<u>62,022</u>
Balance as at 31 December 2017:	
— Purchase price	612,562
— Accumulated amortisation and impairment	<u>(315,372)</u>
— Carrying amount	<u>297,190</u>

The intangible fixed assets consist of expenditure on software license and improvements.

# BRAC International Holdings B.V.

## 2 Tangible fixed assets

Movements in tangible fixed assets were as follows:

	Buildings USD	Plant and equipment USD	Motor vehicles USD	Furniture and Fixtures USD	Total USD
Balance as at 1 January 2017:					
—Purchase price	363,962	1,243,394	535,344	964,606	3,107,306
—Accumulated depreciation and impairment	(29,909)	(813,205)	(376,676)	(453,018)	(1,672,808)
—Carrying amount	<u>334,053</u>	<u>430,189</u>	<u>158,668</u>	<u>511,588</u>	<u>1,434,498</u>
Changes in carrying amount:					
—Investments	-	285,646	212,564	747,391	1,245,601
—Disposals	-	(44,033)	(33,480)	(65,421)	(142,934)
—Depreciation	(7,252)	(154,514)	(71,637)	(121,238)	(354,641)
—Reversal of depreciation on disposal	-	31,722	32,920	17,991	82,633
—Exchange rate differences purchase price	(7,022)	(48,212)	(28,461)	(48,565)	(132,260)
—Exchange rate differences accumulated depreciation	670	35,256	20,140	27,781	83,847
—Change in carrying amount	<u>(13,604)</u>	<u>105,865</u>	<u>132,046</u>	<u>557,939</u>	<u>782,246</u>
Balance as at 31 December 2017:					
—Purchase price	356,940	1,436,795	685,967	1,598,011	4,077,713
—Accumulated depreciation and impairment	(36,491)	(900,741)	(395,253)	(528,484)	(1,860,969)
—Carrying amount	<u><u>320,449</u></u>	<u><u>536,054</u></u>	<u><u>290,714</u></u>	<u><u>1,069,527</u></u>	<u><u>2,216,744</u></u>

# BRAC International Holdings B.V.

## 3 Financial fixed assets

	2017 USD	2016 USD
Investment in SFRE Fund	1,001,370	1,144,224
Deferred tax assets	1,414,250	961,385
Financial lease	15,467	15,944
	<hr/>	<hr/>
	<b>2,431,087</b>	<b>2,121,553</b>
	<hr/> <hr/>	<hr/> <hr/>

### Investment in SFRE Fund

The investment in SFRE Fund has been made to 17400 'A' shares in SFRE fund Luxemburg and recognised at cost less impairment value. The cost per share is USD 100 each and the Net Asset Value (NAV) per share is USD 57.75. According to management estimation, the NAV of this fund will not increase to the level of its cost in the near future.

The organisation's total interest in SFRE Fund amounts to 9.14% as of December 2017. SFRE (Sustainability – Finance – Real Economies SICAV – SIF Fund) was initiated by the Global Alliance for Banking on Values (GABV) to meet growth capital needs of the value-based banks and expand their impact and reach. Total commitment for this investment is USD 4 million and USD 1,740,000 has been invested till 31 December 2017 (NAV USD 1,001,370).

### Deferred tax assets

The deferred tax assets arise due to all temporary differences between the accounting base and fiscal base in assets and liabilities using the principal tax rate of the subsidiaries. The company has unrealized past losses in Liberia, Sierra Leone and temporary tax assets in Tanzania due to higher provision of impairment losses. The management estimate to recover the past losses within next three years. The increase in tax assets is also due to the fact that Sierra Leone now recognizes the Deferred Tax Assets as the Company is profitable.

### Finance lease on leasehold land

The finance lease relates to costs incurred for the acquisition of land located on Block 382, Plot 19 at Kiziba, Bulemezi for BRAC Uganda Social Business Enterprises Ltd. It is amortised on a straight-line basis over the period of the lease. The lease agreement became effective on 18 December 2008 for 99 years and as at 31 December 2017, the remaining lease period is 90 years.

At inception of the lease, the obligation associated with the acquisition was all paid upfront as required by the local laws. Therefore, all future minimum lease payments were paid at once at the beginning of the lease. For such a lease, it is a requirement for the lessee to settle all the obligations upfront for the lease agreement to be effective.

# BRAC International Holdings B.V.

## 4 Inventories

	2017 USD	2016 USD
Inventories	<b>121,822</b>	84,786

No provision for obsolete inventories is deemed necessary (2016: EUR 0).

## 5 Loans and advances to customers

### Principal loans outstanding

	2017 USD	2016 USD
Microfinance loans	<b>91,084,100</b>	83,607,608
Small enterprises programme (SEP)	<b>19,242,427</b>	16,701,574
Empowering and Livelihood for Adolescent Loans (ELA)	<b>2,409,594</b>	2,304,798
Agriculture	<b>2,846,266</b>	2,630,333
Integrated development programme	<b>218,301</b>	210,310
	<b>115,800,688</b>	105,454,623

Microfinance loans to group members are traditional small ticket loans, approximately for a 20 and 40 weeks period and for a period of 6-12 months. SEP loans are normally given to individual small businesses and for a period of 6-12 months. The duration of the loans regarding the ELA (Empowering and Livelihood for Adolescent Loans) and the Agriculture loan is approximately 40 weeks. These loans bear interest percentages from 15% to 30% per annum. It is estimated that the fair values of the loans are approximately the same as the carrying values. All loans are unsecured.

### Loans and advances to customers

	2017 USD	2016 USD
Opening balance as at 1 January	<b>105,454,624</b>	86,432,808
Disbursements during the year	<b>245,179,895</b>	222,352,297
Repayment during the year	<b>(234,833,831)</b>	(203,330,481)
Gross advance to customers	<b>115,800,688</b>	105,454,624
Interest receivable as at 31 December	<b>1,518,832</b>	1,656,726
Write-offs during the year	<b>(1,950,238)</b>	(1,001,690)
Loan loss reserve	<b>(4,498,643)</b>	(3,785,770)
Closing balance as at 31 December	<b>110,870,639</b>	102,323,890

# BRAC International Holdings B.V.

The movement of the loan loss reserve is below:

	2017 USD	2016 USD
Opening balance as at 1 January	3,785,770	4,009,261
Charged for the year	3,298,199	939,703
Write-off	(1,950,238)	(1,001,690)
FX adjustment	(635,088)	(161,504)
Closing balance as at 31 December	<u>4,498,643</u>	<u>3,785,770</u>

This year the company followed the Uganda banking law requirement for its Uganda entity to write off loans. The write-off was done for microfinance loans over 180 days and social enterprise loans over 360 days, which resulted in a significantly higher loan-loss reserve than the company policy. As a result the total write-off is significantly higher than the last year.

For all other countries the company policy of writing off the NIBL (non-interest bearing loans) loans (over 720 days) and for borrowers who are deceased or dislocated is followed.

## 6 Trade and other receivables

	2017 USD	2016 USD
Advances and prepayments to third parties	573,870	439,395
Receivable from BRAC NGO operations	1,221,046	973,193
Other receivables	1,054,654	957,391
Advance taxes	343,429	67,995
	<u>3,192,999</u>	<u>2,437,974</u>

Prepayments are mainly rent paid in advances to the landlords for offices and guest house. All the other receivables are due within 1 year.

Other receivables includes deposits to BRAC International Loan Fund, receivables from MTN against loan realized through mobile banking and interest accrued on short term deposits.

## 7 Cash and cash equivalents

	2017 USD	2016 USD
Cash at bank	12,016,167	10,848,651
Short-term deposits	16,119,810	9,652,974
Cash in hand	87,829	93,107
	<u>28,223,806</u>	<u>20,594,732</u>

# BRAC International Holdings B.V.

All cash and cash equivalent balances are available on demand. Except for the balance with Habibsons Bank NL of USD 2,100,000, restricted in order to provide a bank guarantee to BRAC Pakistan.

## 8 Group equity

### Minority interests

	2017 USD	2016 USD
BRAC Microfinance (Sierra Leone) Ltd	-	418,950
BRAC Liberia Microfinance Company Ltd	-	571,020
	<hr/>	<hr/>
	-	989,970
	<hr/>	<hr/>

On 31 October 2017 Soros Economic Development Fund (SEDF), owner of 24.5% shares in BRAC Liberia Microfinance Ltd and BRAC Microfinance (SL) Ltd donated its shares to BRAC USA and made an exit from the investment. BRAC USA in turn donated the shares to Stichting BRAC International. Stichting BRAC International donated the shares to BRAC International Holdings B.V. as capital contribution to the entity.

Refer to note 24 for the movement schedule of shareholder's equity.

## 9 Non-current liabilities

	2017 USD	2016 USD
Borrowings	<b>39,163,904</b>	34,877,961
Less: Current portion of borrowings	<b>(16,899,369)</b>	(24,079,872)
	<hr/>	<hr/>
Non-current liabilities as per 31 December	<b>22,264,535</b>	10,798,089
	<hr/>	<hr/>

### Borrowings

The non-current liabilities per 31 December 2017 can be further disclosed as follows:

	2017 USD	Repayment obligation 2018 USD	Remaining duration >1 year USD	Remaining duration >5 year USD
BRAC Africa Micro Finance Limited	-	-	-	-
BRAC Bangladesh responsAbility Investments AG	1,449,162 3,308,018	729,706 3,308,018	719,456 -	- -
Bank of Africa	267,619	267,619	-	-
Habib Bank Limited	2,925,195	2,925,195	-	-
Pakistan Poverty Alleviation Fund	1,240,694	1,240,694	-	-
Pakistan Microfinance Investment Co. (PMIC)	4,528,165	3,396,124	1,132,041	-
Stromme Microfinance	3,110,438	822,942	2,287,496	-
Oiko Credit	3,528,828	913,242	2,615,586	-

# BRAC International Holdings B.V.

Netherlands Development Finance Co. (FMO)	4,352,865	-	4,352,865	-
Triodos Investment Management	4,353,530	-	4,353,530	-
Global Partners	3,797,148	-	3,797,148	-
aBi Trust and Finance	1,690,597	328,767	1,361,830	-
Grameen Credit Agricole Foundation	1,476,913	595,856	881,057	-
May Bank Ltd.	917,528	480,059	437,469	-
Others	2,217,204	1,891,147	326,057	-
	<b>39,163,904</b>	<b>16,899,369</b>	<b>22,264,535</b>	<b>-</b>

The movement of the borrowings during the year is given below:

	2017 USD	2016 USD
Opening balance as at 1 January	34,877,961	35,471,353
Received during the year	26,357,548	7,945,194
Repayment during the year	(21,559,712)	(7,430,240)
Interest accrued	169,426	255,561
Foreign currency (gain)/loss	(681,900)	(1,363,907)
Closing balance as at 31 December	<b>39,163,904</b>	<b>34,877,961</b>

The fluctuation in foreign exchange rates in Tanzania and Uganda has been more stable in 2017 than last year, resulting into lower foreign currency gain.

The specification of the borrowings as at 31 December:

	Ref	2017 USD	2016 USD
BRAC Africa Micro Finance Limited	1	-	10,067,165
BRAC Bangladesh	2	1,449,162	1,872,104
responsAbility Investments AG	3	3,308,018	6,896,928
Bank of Africa	4	267,619	2,988,954
Habib Bank Limited	5	2,925,195	5,089,894
Pakistan Poverty Alleviation Fund	6	1,240,694	3,620,447
Pakistan Microfinance Investment Co. (PMIC)	7	4,528,165	-
Stromme Microfinance	8	3,110,438	1,544,076
Oiko Credit	9	3,528,828	1,403,706
Netherlands Development Finance Co. (FMO)	10	4,352,865	-
Triodos Investment Management	10	4,353,530	-
Global Partners	10	3,797,148	-
aBi Trust and Finance	11	1,690,597	-
Grameen Credit Agricole Foundation	12	1,476,913	-
May Bank Ltd.	13	917,528	-
Others	14	2,217,204	1,394,687
		<b>39,163,904</b>	<b>34,877,961</b>

1. The BRAC Africa Micro Finance Limited loan agreement of USD 62 million was entered on 27 October 2008 for period of 7 years. On June 2013, the loan was restructured with a balance of equivalent to USD 17.25 million for Uganda and Tanzania with a revised interest rates of 14.85%. The loan period is 4.5 years up to

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December 2017 and repayable in three instalments in June 2016, June 2017 and December 2017. The loan has been fully repaid in December 2017.

2. In January 2007, BRAC Uganda Microfinance obtained a facility of UGX 2,187 million (USD 1.3 million) from BRAC Bangladesh for support of microfinance. It bears interest at 8% per annum. This loan is not secured. In 2013, UGX 640 million was repaid and the balance of UGX 1,547 million shall be repaid on demand.
3. In 2015, term loan facility worth USD 7.5 million was secured from responsAbility investments AG (a Swiss-based private enterprise) for 36 months for Uganda and Tanzania. The loan is repayable in three equal instalments and attracts interest at 6.95%. As at 31 December 2017, the outstanding liability amounts to USD 3,308,018 which is payable by December 2018.
4. In May 2015, BRAC Microfinance obtained a term loan from Bank of Africa amounting to UGX 9,500,000,000 equivalent to USD 2,849,858. The loan period is 3 years. Interest and principal is paid on a quarterly basis at a rate of 23%. At close of December 2016, principal amounting to UGX 4,819,899,000 had been repaid. As at 31 December 2017, the outstanding liability amounts to USD 267,619 which is payable by December 2018.
5. BRAC Pakistan secured a loan facility of PKR 500 million (USD 5 million) from Habib Bank. The loan is secured against SBP (State Bank of Pakistan)'s partial guarantee under Micro Credit Guarantee Facility for 60% of the outstanding principal amount and a bank guarantee of USD 2.1 million from BRAC International Holdings B.V. As at 31 December 2017, the outstanding liability amounts to USD 2,925,195 which is payable by December 2018.

BRAC Pakistan also have a running finance facility with Habib Bank of PKR 95 million which is secured against a deposit of USD 1 million and attracts interest at KIBOR +0.75%.

6. BRAC Pakistan also continues multiple loan facilities from Pakistan Poverty Alleviation Fund (PPAF). These facilities are secured against assignment of rights over the Company's portfolio up to an amount received by the Company under the agreement, a demand promissory note and a first charge on all assets / capital items created out of the agreement. The interests on these facilities are in the range of six-month KIBOR rate with a floor of 8%. As at 31 December 2017, the outstanding liability amounts to USD 1,240,694 which is payable by December 2018.
7. BRAC Pakistan acquired a term loan facility of PKR 500 million (USD 4.50 million) from Pakistan Microfinance Investment Company (PMIC). The loan is secured against assignment of rights over a portfolio of the Company's advances up to PKR 625 Million and a demand promissory note. The loan will be paid in four equal installment starting from 30<sup>th</sup> June 2018 and the current portion of the loan is USD 3,396,124 and attracts interest at 6month KIBOR+3.25% p.a.
8. BRAC Uganda and Tanzania secured a loan facility of USD 1.5 million each in equivalent local currency from Strommee Microfinance (E.A) limited in 2016 and 2017. The loan is repayable in 4 years with a 1 year grace period and attracts interest at 18% p.a.
9. In October 2016, BRAC Uganda Microfinance obtained a loan from Oiko credit, the loan agreement was for a total principal loan amount of Ushs 20 billion for a period of 5 years, at a rate of 16.01% and disbursed in 4 tranches of Ushs 5 billion each. The first tranche was received on the 23 December 2016 and a second and third



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tranches of Ushs 10 billion were received on 21 September 2017. The loan will be repaid in 18 quarterly instalments. As at 31 December 2017, the outstanding liability amounts to USD 3,528,828 and the current portion of the loan is USD 310,421.

10. In July 2017, BRAC Uganda and Tanzania Microfinance companies obtained a club loan facility of USD 21 million from Netherlands Development Finance Co. (FMO), Triodos Investment Management and Global Partners for a period of 4 years, at a rate of 15% to 17% and to be disbursed in 4 tranches. The principal repayments will commence from 2020. The loan is not secured.
11. In July 2017, a loan agreement was signed between BRAC Uganda Microfinance and aBi Finance limited amounting to Ushs 6 billion (USD 1.69 million). The principle is repayable within 4 years and attracts an interest rate of minimum 14% pa with six months grace period for principal. Principle and interest payments are made on a quarterly basis and the current outstanding of the loan is USD 1.69 million.
12. In April 2017, BRAC Myanmar Microfinance obtained a loan facility of Kyat 2 billion (USD 1.50 million) from Grameen Credit Agricole Foundation. The loan is repayable in five equal installment and attracts an interest of 13% p.a. The current portion of the loan is USD 587,803.
13. In November 2017, BRAC Myanmar Microfinance obtained a loan facility of Kyat 1.30 billion (USD 1 million) from May Bank Ltd. The loan is repayable in 24 monthly installment and attracts interest of 12.5% p.a. The current portion of the loan is USD 477,590. The loan secured against a corporate guarantee from BRAC International Holdings B.V.
14. Other includes a loan from Kiva Micro funds, a 501 non-profit organisation that allows to lend money via the Internet for low-income entrepreneurs and also includes a loan from Central Bank of Liberia.

## 10 Current liabilities

	2017 USD	2016 USD
Donor funds	4,548,037	5,609,004
Current portion of the borrowings (note 9)	16,899,369	24,079,872
Other current liabilities	28,724,236	39,148,195
	<b>50,171,642</b>	<b>68,837,071</b>

### Donor funds

	2017 USD	2016 USD
Donor funds received in advance	2,659,421	2,790,850
Donor funds invested in microfinance loans	1,734,186	2,587,154
Donor funds utilized in fixed assets	154,430	231,000
	<b>4,548,037</b>	<b>5,609,004</b>

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## *Donor funds received in advance*

	2017 USD	2016 USD
Opening balance as at 1 January	<b>2,790,850</b>	2,026,693
Received during the year	<b>689,567</b>	2,045,058
Transferred to donor funds invested in fixed assets	<b>(12,329)</b>	141,180
Transferred to donor fund investment in loans	<b>(309,966)</b>	(840,329)
Released to profit and loss account	<b>(383,567)</b>	(554,334)
Other	<b>(115,134)</b>	(27,418)
	<hr/>	<hr/>
Closing balance as at 31 December	<b>2,659,421</b>	2,790,850

This year BRAC received USD 689,567 from Whole Planet Foundation and Rockefeller Foundation in Myanmar, Tanzania, Sierra Leone and Liberia. The grants from the above donors were received for the enhancement of the Microfinance programme. The grants had been provided on the basis of the Company fulfilling certain conditions, failing to comply with which, part or all of the money may have to be refunded to the donor.

## *Donor funds invested in microfinance loans*

	2017 USD	2016 USD
Opening balance as at 1 January	<b>2,587,154</b>	2,102,909
Transferred from donor funds received in advance	<b>309,966</b>	840,329
Currency translation	<b>(1,162,934)</b>	(356,084)
	<hr/>	<hr/>
Closing balance as at 31 December	<b>1,734,186</b>	2,587,154

## *Donor funds utilised in fixed assets*

	2017 USD	2016 USD
Opening balance as at 1 January	<b>231,000</b>	287,050
Transferred from donor funds received in advance	<b>12,329</b>	(141,180)
Depreciation charged for the year released to the profit and loss account	<b>(57,449)</b>	(66,000)
Currency translation	<b>(31,450)</b>	151,130
	<hr/>	<hr/>
Closing balance as at 31 December	<b>154,430</b>	231,000

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## Other current liabilities

	2017 USD	2016 USD
Loan Security Fund	17,501,860	17,103,107
Payable to Stichting BRAC International	1,190,956	10,488,473
Payable to BRAC Bangladesh	2,489,155	3,747,483
Payable to biTs (BRAC IT Services Limited)	849,419	365,779
Tax payable	519,956	1,083,713
Deposits from customers	1,128,322	978,142
Other liabilities	4,069,123	4,611,795
Accrued expenses	975,445	769,703
	<b>28,724,236</b>	<b>39,148,195</b>

The Loan Security Fund acts as collateral for the customers' loan obligations to the subsidiaries of BRAC International Holdings B.V. This is computed as 10% of a part of the customers' approved loans. In the event of any default, the subsidiaries of BRAC International Holdings B.V. forfeit all or part of the Loan Security Fund to the extent of the amount at risk. The loans have durations of 20 - 40 weeks and 6 - 12 months depending on the loan types.

Payable to Stichting BRAC International mainly relates to the amount provided by Stichting BRAC International, the parent entity to the Company for making various investments. The amount is payable on demand. In December 2017, the shareholder Stichting BRAC International decided to convert the receivable of USD 11,816,372 from the company into Share Premium as informal capital contribution.

Payable to BRAC Bangladesh is in relation to the expenses incurred by BRAC Bangladesh on behalf of the Company and its subsidiaries. The amount is payable on demand.

Other liabilities include mainly grants for loans from BRAC Maendeleo to BRAC Tanzania Finance amounting USD 1.85 million which will be transferred to equity after getting final confirmation from the donor. It also includes interoffice provisions in BRAC Zanzibar USD 0.50 m and USD 0.45 m for gratuity provision in BRAC Pakistan. In addition, various staff benefit provisions, withholding taxes and payable to suppliers are part of the other liabilities. All the other liabilities are payable within one year.

## 11 Financial instruments

### General

During the normal course of business, the Company uses various financial instruments that expose the Company to market and/or credit risks. These relate to financial instruments that are included in the balance sheet.

The Company does not trade in these financial derivatives and follows procedures and a code of conduct to limit the size of the credit risk with each counterparty and market. If a counterparty fails to meet its payment obligations to the Company, the resulting losses are limited to the fair value of the instruments in question. The contract value or principal

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amounts of the financial instruments serve only as an indication of the extent to which such financial instruments are used, and not of the value of the credit or fair risks.

## **Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

BRAC 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.

## **Credit risk**

Credit risk arises principally from the company loans and receivables presented under financial fixed assets, trade and other receivables and cash. The maximum amount of credit risk that the Company incurs is USD 65.9 million, consisting of Loans and advances to customers, Receivable from NGOs, Prepayments and others, Cash at bank and Short-term deposits. The credit risk is spread over a large number of counterparties (banks, customers and other third parties).

The company exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

Exposure to credit risk is monitored on an ongoing basis by the commercial ventures respective management teams. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure.

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

The provision of unsecured loans to group members is the main aspect of the Company's business. As such, exposure to credit risk and the management of this risk is a key consideration for the Board.

## **Management of credit risk**

The Company recognises that the aim of risk management is not to eliminate risk totally, but rather to provide the structural means to identify, prioritise and manage the risks involved in all activities. It requires a balance between the cost of managing and treating risks, and the anticipated benefits that will be derived.

## **Policy objectives**

- Protect the Company and its subsidiaries from risks of significant likelihood and consequence in the pursuit of the stated strategic goals and objectives.
- Provide a consistent risk management framework in which the risks concerning the company will be identified, considered and addressed in key approval, review and control processes.
- Encourage pro-active rather than re-active management.

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- Provide assistance to and improve the quality of decision making throughout BI.
- Meet legal or statutory requirements.
- Assist in safeguarding the Company's assets: people, finance, property and reputation.

The Executive Director will be responsible on behalf of the Company for ensuring that a risk management system is established, implemented and maintained in accordance with this policy.

The risk management department will be responsible for oversight and assurance of the processes for the identification and assessment of the strategic-level risk environment. Risk management function will ensure Risk Management Services are in conformity with global standards.

## **Currency risk**

The group is exposed to currency risk denominated in a currency other than the respective functional currencies of group entities. The functional currency is the US Dollar (USD), the presentation currency is USD. The currency in which transactions primarily are denominated is USD. No hedges are in place. The management regularly reviews the currency trends to manage currency risks.

## **Interest rate risk and cash-flow 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 group members. BRAC does not engage in speculative transactions or take speculative positions on its interest rates.

## **Market risk**

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, which are both exposed to general and specific market movements and changes in the level of volatility.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

### *Management of market risk*

Overall responsibility for the management of the market risk rests with the Country Representatives. Management is responsible for the development of detailed risk management policies and for the day-to-day implementation of those policies.

## **Liquidity risk**

Liquidity risk is the risk that operations cannot be funded and financial commitments cannot be met timeously and cost effectively. The risk arises from both the difference between the magnitude of assets and liabilities and the disproportion in their maturities. Liquidity risk management deals with the overall profile of the balance sheet, the funding

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requirements of the Company and cash flows. In quantifying the liquidity risk, future cash flow projections are simulated and necessary arrangements are put in place in order to ensure that all future cash flow commitments are met from the working capital generated by the Company and also from available financial institutions facilities.

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

## Off-balance sheet assets and liabilities

The group has a capital commitment of SFRE Fund of USD 4 million. As of 31 December 2017 USD 1,740,000 million is disbursed as at date of the auditor's report.

The Company also committed USD 1 million each for BRAC Liberia Microfinance Company Ltd and BRAC Microfinance (SL) Ltd to improve the liquidity in the countries. As of 31 December 2017, USD 500,000 for each country has been disbursed.

The Company also provided a corporate guarantee to May Bank Ltd. for Kyat 1.3 billion (USD 1 million) term loan to BRAC Myanmar Microfinance.

## 12 Service charge income

The breakdown of service charge income by country is as follows:

	2017 USD	2016 USD
<b>Africa</b>		
Uganda	22,143,895	22,879,757
Tanzania	17,954,274	14,840,969
Liberia	1,828,979	1,389,908
Sierra Leone	2,377,000	1,277,000
Zanzibar	680,782	549,825
	<hr/>	<hr/>
	44,984,930	40,937,459
<b>Asia</b>		
Pakistan	5,540,702	5,193,039
Myanmar	2,151,248	1,358,897
Sri Lanka	-	-
	<hr/>	<hr/>
	7,691,950	6,551,936
	<hr/>	<hr/>
	52,676,880	47,489,395
	<hr/> <hr/>	<hr/> <hr/>

Service charge income denotes the interest income earned on loans and advances disbursed.

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## 13 Other operating income

	2017 USD	2016 USD
Fees and commission income	2,560,217	2,359,130
Grant income	499,787	622,630
Income from sale of seeds	470,666	262,525
Foreign exchange (loss) / gains	(54,290)	(447,119)
Other income	84,298	1,780,917
	<b>3,560,678</b>	<b>4,578,083</b>

Fees and commission income includes membership fees charged to customers, loan appraisal fee charged to clients and sale of passbook.

Other income includes gains made due to early repayment of loans, cost recovered from staffs as rent against share of space and utilities.

## 14 Cost of outsourced work and other external costs

	2017 USD	2016 USD
General and administrative expenses	3,169,406	3,226,328
Travel and transportation	3,926,682	3,321,783
Office rent	1,343,739	913,666
Utilities	628,566	255,475
Printing and office stationery	647,755	571,266
Staff training and development	368,337	318,603
Audit fees	293,323	352,983
Internet	185,668	167,916
	<b>10,563,476</b>	<b>9,128,020</b>

## 15 Wages and salaries

	2017 USD	2016 USD
Salaries and benefits	15,897,525	13,736,126

During the 2017 financial year, the average number of staff employed in the group, converted into full-time equivalents, amounted to 4,988 people (2016: 4,335). All people except 2 (2016: 2) were employed outside the Netherlands.

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## 16 Social security and pension charges

	2017 USD	2016 USD
Social security charges and pension charges	<u>1,229,658</u>	<u>1,049,256</u>

Social security benefits include payments made by the Company and its subsidiaries in various social welfare funds/ pension scheme as per the country statute.

The Company only has an employee pension scheme in the Netherlands. The Company contributes 60% of the annual pension charge, whereas the employee contributes 40%. The total contribution for the year 2017 is USD 2,024 (2016: USD 448).

## 17 Other operating expenses

	2017 USD	2016 USD
Other operating expenses	<u>2,417,800</u>	<u>2,131,546</u>

Other expenses include professional consultancy fees, self-insurance provision, software maintenance, group member's death benefits, etc.

## 18 Corporate income tax

The effective tax burden deviates from the nominal (25%) tax burden. This deviation is due to the results in the different tax jurisdictions.

The major components of the tax charge are as follows:

	2017 USD	2016 USD
Current tax	<b>4,408,947</b>	6,385,350
Movement in temporary differences	<b>(452,865)</b>	575,165
Tax on result from ordinary activities	<u><b>3,956,082</b></u>	<u>6,960,515</u>

The applicable weighted average tax rate is 22% (2016: 33.0%), whereby the weighted average has been calculated based on the results before taxes in the various tax jurisdictions.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The applied tax rate is 25-30%.

The numerical reconciliation between the applicable and the effective tax rate is as follows:



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	2017		2016	
	USD	%	USD	%
Result before tax	<b>18,252,734</b>		21,020,617	
Tax using the Company's domestic tax rate	<b>4,563,184</b>	<b>25.0</b>	5,255,154	25.0
Tax on result BRAC International Holdings B.V.			-	
Application of different tax rate and unpaid provisions	<b>(607,102)</b>		1,705,361	
Income tax according to consolidated profit and loss account	<b>3,956,082</b>	<b>22.0</b>	6,960,515	33.0

The reason for lower weighted average tax rate is due to the fact that the company has some unrealized tax credit on past losses in West African countries especially in Sierra Leone, Liberia and Pakistan.

## 19 Transactions with related parties

Transactions with related parties are assumed when a relationship exists between the Company and a natural person or entity that is affiliated with the Company. This includes, among other relations, the relationship between the Company and its subsidiaries, shareholders, directors and key management personnel. Transactions are transfers of resources, services or obligations, regardless whether anything has been charged. All the transaction were made on terms equivalent to those that prevail in arm's length transactions.

Therefore, there have been no transactions with related parties that were not on a commercial basis.

The following balances with related parties existed at the year-end:

	2017 USD	2016 USD
Term deposit to BRAC Bank	<b>5,471,011</b>	5,435,238
Payable to Stichting BRAC International	<b>1,190,956</b>	10,427,473
Payable to BRAC	<b>2,489,155</b>	3,749,133
Payable to BRAC IT Services Ltd.	<b>849,419</b>	365,779
BRAC Africa Microfinance Ltd	-	10,067,165
Payable to BRAC Lanka Guarantee Ltd	<b>293,064</b>	301,784

The following related party transactions occurred during the year:

	2017 USD	2016 USD
Interest payment on BRAC loans	<b>126,044</b>	63,021
Remuneration to the Management Board Members	<b>48,680</b>	4,845
Software maintenance cost from BRAC IT Services Ltd.	<b>444,287</b>	461,210
Expenses charged by BRAC Bangladesh	<b>1,065,344</b>	998,144
Interest and principal repayment of loan to BRAC Africa Microfinance Ltd	<b>11,129,197</b>	2,005,350

Payable to Stichting BRAC International mainly relates to the amount provided by Stichting BRAC International, the parent entity to the Company for making various investments. The amount is payable on demand. In December 2017, the shareholder

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Stichting BRAC International decided to convert the receivable of USD 11,816,372 from the company into Share Premium as informal capital contribution.

## **20 Subsequent events**

At the time of signing the financial statements, the directors are not aware of any events after the year-end not otherwise dealt with in these financial statements.

## **21 Segmental information**

### **Operational segments**

These segments offer different products and services and are managed separately as they require different strategies in terms of operation and marketing.

The group has two strategic operational segments: microfinance and social business enterprise.

Microfinance programme (MF) has been designed to serve large numbers of poor people with reliable access to cost-effective financial services. It is providing capital support to borrowers for creating livelihoods. Loans to group members are traditional microfinance loans, approximately for a 20 and 40 weeks period. SEP loans are normally for a 6-12 months period. The duration of the loans regarding the ELA (Empowering and Livelihood for Adolescent Loans) and the Agriculture loan is approximately 40 weeks and for SEP (Small enterprises programme) loans approximately 12 months. These loans bear interest percentages from 25% to 52% per annum. It is estimated that the fair values of the loans are approximately the same as the carrying values. All loans are unsecured.

Social business enterprise (SBE) involves the production and processing of seeds (maize and rice).

The group's management reviews internal report of these segments on a monthly basis. Assets, liability and equity position along with their profitability is set out below.

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## Segmental balance sheet as at 31 December 2017

	MF USD	SBE USD	Head office USD	Elimination USD	Total USD
<b>Fixed assets</b>					
Intangible fixed assets	297,190	-	-	-	297,190
Tangible fixed assets	1,785,412	431,332	-	-	2,216,744
Financial fixed assets	1,414,250	15,467	13,913,154	(12,911,784)	2,431,087
	<u>3,496,852</u>	<u>446,799</u>	<u>13,913,154</u>	<u>(12,911,784)</u>	<u>4,945,021</u>
<b>Current assets</b>					
Inventories	76,487	45,335	-	-	121,822
Loans and advances to customers	110,870,639	-	-	-	110,870,639
Other receivables	2,901,180	139,171	1,208,487	(1,055,839)	3,192,999
Cash and cash equivalents	20,159,681	164,142	7,899,983	-	28,223,806
	<u>134,007,987</u>	<u>348,648</u>	<u>9,108,470</u>	<u>(1,055,839)</u>	<u>142,409,266</u>
	<u>137,504,839</u>	<u>795,447</u>	<u>23,021,624</u>	<u>(13,967,623)</u>	<u>147,354,287</u>
<b>Group equity</b>					
Shareholder's equity	64,474,457	619,160	22,352,550	(12,528,057)	74,918,110
Minority interests	-	-	-	-	-
	<u>64,474,457</u>	<u>619,160</u>	<u>22,352,550</u>	<u>(12,528,057)</u>	<u>74,918,110</u>
<b>Non-current liabilities</b>	22,264,535	-	-	-	22,264,535
<b>Current liabilities</b>	50,765,847	176,287	669,074	(1,439,566)	50,171,642
	<u>137,504,839</u>	<u>795,447</u>	<u>23,021,624</u>	<u>(13,967,623)</u>	<u>147,354,287</u>

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## Segmental profit and loss account for the year ended 2017

	MF USD	SBE USD	Head office USD	Elimination USD	Total USD
Service charge income	52,676,880	–	–	–	52,676,880
Other operating income	3,369,587	562,801	1,498,243	(1,869,953)	3,560,678
<b>Total operating income</b>	<b>56,046,467</b>	<b>562,801</b>	<b>1,498,243</b>	<b>(1,869,953)</b>	<b>56,237,558</b>
Cost of outsourced work and other external cost	(11,027,148)	(176,721)	(1,229,560)	1,869,953	(10,563,476)
Wages and salaries	(15,727,435)	(127,679)	(42,411)	–	(15,897,525)
Social security and pension charges	(1,217,139)	(12,519)	–	–	(1,229,658)
Amortisation and depreciation on intangible and tangible fixed assets	(399,251)	(38,323)	–	–	(437,574)
Impairment losses on loans and advances to customers	(3,298,199)	–	–	–	(3,298,199)
Other operating expenses	(1,779,729)	(330,137)	(691,661)	383,727	(2,417,800)
<b>Total operating expenses</b>	<b>(33,448,901)</b>	<b>(685,379)</b>	<b>(1,963,632)</b>	<b>2,253,680</b>	<b>(33,844,232)</b>
<b>Operating result</b>	<b>22,597,566</b>	<b>(122,578)</b>	<b>(465,389)</b>	<b>383,727</b>	<b>22,393,326</b>
Interest income and similar income	896,324	13,514	157,624	–	1,067,462
Interest expenses and similar charges	(5,070,121)	4,921	(142,854)	–	(5,208,054)
	<b>(4,173,797)</b>	<b>18,435</b>	<b>14,770</b>	<b>–</b>	<b>(4,140,592)</b>
<b>Result from ordinary activities before tax</b>	<b>18,423,769</b>	<b>(104,143)</b>	<b>(450,619)</b>	<b>383,727</b>	<b>18,252,734</b>
Corporate income tax	(3,956,082)	–	–	–	(3,956,082)
<b>Result after tax</b>	<b>14,467,687</b>	<b>(104,143)</b>	<b>(450,619)</b>	<b>383,727</b>	<b>14,296,652</b>
Minority interests	(148,565)	–	–	–	(148,565)
<b>Net result</b>	<b>14,319,122</b>	<b>(104,143)</b>	<b>(450,619)</b>	<b>383,727</b>	<b>14,148,087</b>

# BRAC International Holdings B.V.

## Geographic information

The group business operation is mainly based in Asia, Africa and the Netherlands. Business Managers for each operation is separate. The group's management reviews internal report of these geographical segments on a monthly basis. Assets, liability and equity position bases on geography for along with their profitability is set out below:

### *Geographical balance sheet as at 31 December 2017*

	Africa	Asia	The Netherlands	Elimination	Total
	USD	USD	USD	USD	USD
<b>Fixed assets</b>					
Intangible fixed assets	175,805	121,385	-	-	297,190
Tangible fixed assets	1,936,117	280,627	-	-	2,216,744
Financial fixed assets	1,429,717	-	13,913,154	(12,911,784)	2,431,087
	<b>3,541,639</b>	<b>402,012</b>	<b>13,913,154</b>	<b>(12,911,784)</b>	<b>4,945,021</b>
<b>Current assets</b>					
Inventories	120,912	910	-	-	121,822
Loans and advances to customers	86,592,287	24,278,352	-	-	110,870,639
Other receivables	2,345,748	694,603	1,208,487	(1,055,839)	3,192,999
Cash and cash equivalents	17,495,175	2,828,648	7,899,983	-	28,223,806
	<b>106,554,122</b>	<b>27,802,513</b>	<b>9,108,470</b>	<b>(1,055,839)</b>	<b>142,409,266</b>
	<b>110,095,761</b>	<b>28,204,525</b>	<b>23,021,624</b>	<b>(13,967,623)</b>	<b>147,354,287</b>
Shareholder's equity	55,604,260	9,489,357	22,352,550	(12,528,057)	74,918,110
Minority interests	-	-	-	-	-
	<b>55,604,260</b>	<b>9,489,357</b>	<b>22,352,550</b>	<b>(12,528,057)</b>	<b>74,918,110</b>
<b>Non-current liabilities</b>	18,738,053	3,526,482	-	-	22,264,535
<b>Current liabilities</b>	35,753,448	15,188,686	669,074	(1,439,566)	50,171,642
	<b>110,095,761</b>	<b>28,204,525</b>	<b>23,021,624</b>	<b>(13,967,623)</b>	<b>147,354,287</b>

# BRAC International Holdings B.V.

## *Geographical profit and loss account for the year ended 2017*

	Africa	Asia	The Netherlands	Elimination	Total
	USD	USD	USD	USD	USD
Service charge income	44,984,930	7,691,950	–	–	52,676,880
Other operating income	3,436,114	496,274	1,498,243	(1,869,953)	3,560,678
<b>Total operating income</b>	<b>48,421,044</b>	<b>8,188,224</b>	<b>1,498,243</b>	<b>(1,869,953)</b>	<b>56,237,558</b>
Cost of outsourced work and other external costs	(9,824,125)	(1,379,744)	(1,229,560)	1,869,953	(10,563,476)
Wages and salaries	(12,902,178)	(2,952,936)	(42,411)	–	(15,897,525)
Social security and pension charges	(1,229,658)	–	–	–	(1,229,658)
Amortisation and depreciation on intangible and tangible fixed assets	(306,731)	(130,843)	–	–	(437,574)
Impairment losses on loans and advances to customers	(3,082,578)	(215,621)	–	–	(3,298,199)
Other operating expenses	(1,907,178)	(202,688)	(691,661)	383,727	(2,417,800)
<b>Total operating expenses</b>	<b>(29,252,448)</b>	<b>(4,881,832)</b>	<b>(1,963,632)</b>	<b>2,253,680</b>	<b>(33,844,232)</b>
<b>Operating result</b>	<b>19,168,596</b>	<b>3,306,392</b>	<b>(465,389)</b>	<b>383,727</b>	<b>22,393,326</b>
Interest income and similar income	909,838	–	157,624	–	1,067,462
Interest expenses and similar charges	(4,150,932)	(914,268)	(142,854)	–	(5,208,054)
	<b>(3,241,094)</b>	<b>(914,268)</b>	<b>14,770</b>	<b>–</b>	<b>(4,140,592)</b>
<b>Result from ordinary activities before tax</b>	<b>15,927,502</b>	<b>2,392,124</b>	<b>(450,619)</b>	<b>383,727</b>	<b>18,252,734</b>
Corporate income tax	(3,692,248)	(263,834)	–	–	(3,956,082)
<b>Result after tax</b>	<b>12,235,254</b>	<b>2,128,290</b>	<b>(450,619)</b>	<b>383,727</b>	<b>14,296,652</b>
Minority interests	(148,565)	–	–	–	(148,565)
<b>Net result</b>	<b>12,086,689</b>	<b>2,128,290</b>	<b>(450,619)</b>	<b>383,727</b>	<b>14,148,087</b>

# BRAC International Holdings B.V.

## Company balance sheet as at 31 December 2017

(before profit appropriation)

		2017		2016	
		USD	USD	USD	USD
<b>Fixed assets</b>					
Financial fixed assets	22		13,913,154		10,005,559
<b>Current assets</b>					
Accounts receivable		1,208,487		718,011	
Cash and cash equivalents	23	7,899,983		8,053,049	
		<u>          </u>	<b>9,108,470</b>	<u>          </u>	<b>8,771,060</b>
			<u>          </u>		<u>          </u>
			<b>23,021,624</b>		<b>18,776,619</b>
			<u>          </u>		<u>          </u>
<b>Shareholder's equity</b>					
Issued capital	24	9,103,736		8,007,056	
Share premium reserve	24	14,992,257		2,144,172	
Foreign currency translation reserve	24	(327,421)		205,201	
Retained earnings	24	(2,420,081)		(2,070,785)	
Unappropriated result	24	1,004,059		(349,296)	
		<u>          </u>	<b>22,352,550</b>	<u>          </u>	<b>7,936,348</b>
<b>Current liabilities</b>					
Payables to Stichting BRAC International	25	500,000		10,690,194	
Accrued liabilities	25	169,074		150,077	
		<u>          </u>	<b>669,074</b>	<u>          </u>	<b>10,840,271</b>
			<u>          </u>		<u>          </u>
			<b>23,021,624</b>		<b>18,776,619</b>
			<u>          </u>		<u>          </u>

The notes on pages 64 to 71 are an integral part of these separate financial statements.

# BRAC International Holdings B.V.

## Company profit and loss account 2017

		2017		2016	
		USD	USD	USD	USD
Interest income		<u>157,624</u>		<u>175,384</u>	
<b>Total operating income</b>			<b>157,624</b>		<b>175,384</b>
Office expense and professional fees	27	<b>104,323</b>		230,106	
Financial expenses	28	<b>503,920</b>		337,146	
<b>Total operating expense</b>			<b>608,243</b>		<b>567,252</b>
<b>Net operating result</b>			<b>(450,619)</b>		<b>(391,868)</b>
Shares in result of participating interests	29		<b>1,454,678</b>		<b>42,572</b>
<b>Net result</b>			<b>1,004,059</b>		<b>(349,296)</b>

The notes on pages 64 to 71 are an integral part of these separate financial statements.



# BRAC International Holdings B.V.

## Notes to the 2017 company financial statements

### General

The company financial statements are part of the 2017 financial statements of the group. Insofar as no further explanation is provided of items in the company balance sheet and the company profit and loss account, please refer to the notes to the consolidated balance sheet and profit and loss account.

### Accounting policies

The principles for the valuation of assets and liabilities and the determination of the result are the same as those applied to the consolidated balance sheet and profit and loss account, with the exception of the following:

### Financial instruments

In the company financial statements, financial instruments are presented on the basis of their legal form.

### Participating interests in group companies

Participating interests in group companies are accounted for in the company financial statements according to the equity accounting method on the basis of net asset value. For details we refer to the accounting policy for financial fixed assets in the consolidated financial statements.

### Share in result of participating interests

This item concerns the Company's share in the profit or loss of these participating interests. Insofar as gains or losses on transactions involving the transfer of assets and liabilities between the Company and its participating interests or between participating interests themselves can be considered unrealised, they have not been recognised.

# BRAC International Holdings B.V.

## 22 Financial fixed assets

	2017 USD	2016 USD
Participating interests in group companies	12,911,784	8,861,335
Investment in SFRE Fund	1,001,370	1,144,224
	<b>13,913,154</b>	10,005,559

### Participating interests

	2017 USD	2016 USD
Opening balance as at 1 January	8,861,335	4,255,232
Capital contribution (Myanmar)	–	3,000,000
Additional investment in Liberia	500,000	–
Additional investment in Sierra Leone	500,000	–
Acquisition of shares (Sierra Leone, Liberia)	1,031,713	696,760
Donated equity (Sierra Leone and Liberia)	–	752,525
Acquisition of new entity (BRAC Social Enterprises Uganda Ltd.)	–	627,440
Foreign currency translation differences	564,058	(513,194)
Result of subsidiaries	1,454,678	42,572
Closing balance as at 31 December	<b>12,911,784</b>	8,861,335

BRAC International Holdings B.V. has interest in the companies as follows:

Name	Legal address	2017 Share of interest %	2016 Share of interest %
BRAC Microfinance Sierra Leone Ltd	Freetown, Sierra Leone	100	75.5
BRAC Liberia Microfinance Ltd	Monrovia, Liberia	100	75.5
BRAC Lanka Investments (Private) Ltd	Colombo, Sri Lanka	100	100
BRAC Myanmar Microfinance Company Ltd	Yangon, Myanmar	100	100
BRAC Social Business Enterprise Uganda Ltd.	Kampala, Uganda	100	100
BRAC Uganda Microfinance Ltd	Kampala, Uganda	–	–
BRAC Tanzania Finance Ltd	Dar es Salaam, Tanzania	–	–
BRAC Pakistan	Islamabad, Pakistan	–	–
BRAC	Mbweni, Zanzibar	–	–

During the year the company invested USD 0.5 million for each country in Sierra Leone and Liberia to boost the operational growth.

On 31 October 2017 Soros Economic Development Fund (SEDF), owner of 24.5% shares in BRAC Liberia Microfinance Ltd and BRAC Microfinance (SL) Ltd donated its shares to BRAC USA and made an exit from the investment. BRAC USA in turn donated the shares to Stichting BRAC International. Stichting BRAC International donated the shares to BRAC International Holdings B.V. as informal capital contribution to the entity.

# BRAC International Holdings B.V.

The foreign currency translation difference denotes the reduction in the company share due to exchange difference with subsidiaries' functional currency against USD.

The entities with no share of interest are locally established limited companies by guarantee and having no share capital. BRAC International Holdings B.V. has control over the governance and operational policy of these entities and is able to appoint directors. The goals of the consolidated group companies are aligned with the goals of the Company. Within these consolidated group companies, at least one of the executives of the Company is involved as member of the Board of Directors.

## Investment in SFRE Fund

The investment in SFRE Fund has been made to 17400 'A' shares in SFRE fund Luxemburg and recognised at cost less impairment value. The cost per share is USD 100 each and the Net Asset Value (NAV) per share is USD 57.755. According to management estimation, the NAV of this fund will not increase to the level of its cost in the near future.

The organisation's total interest in SFRE Fund amounts to 9.14% as of December 2017. SFRE (Sustainability – Finance – Real Economies SICAV – SIF Fund) was initiated by the Global Alliance for Banking on Values (GABV) to meet growth capital needs of the value-based banks and expand their impact and reach. Total commitment for this investment is USD 4 million and USD 1,740,000 has been invested till 31 December 2017 (NAV USD 1,001,370).

## 23 Cash and cash equivalents

	2017 USD	2016 USD
Cash at bank	2,581,620	2,734,686
Term deposits	5,318,363	5,318,363
	<u>7,899,983</u>	<u>8,053,049</u>

All cash and cash equivalent balances are available on demand, except for the balance with Habibsons Bank NL of USD 2,100,000, restricted in order to provide a bank guarantee to BRAC Pakistan.

# BRAC International Holdings B.V.

## 24 Shareholder's equity

	Issued capital	Share premium reserve	Foreign currency translation reserve	Retained earnings	Unappropriated result	Total
	USD	USD	USD	USD	USD	USD
Revised balance as at 1 January 2016	8,303,304	694,887	422,147	(30,104)	(2,040,681)	7,349,553
Changes:						
— Transfer of unappropriated results	—	—	—	(2,040,681)	2,040,681	—
— Informal capital contribution	—	1,449,285	—	—	—	1,449,285
— Translation differences - share capital	(296,248)	—	296,248	—	—	—
— Translation differences - participation interest	—	—	(513,194)	—	—	(513,194)
— Result for the year	—	—	—	—	(349,296)	(349,296)
— Translation difference	—	—	—	—	—	—
Balance as per 31 December 2016	<u>8,007,056</u>	<u>2,144,172</u>	<u>205,201</u>	<u>(2,070,785)</u>	<u>(349,296)</u>	<u>7,936,348</u>
Balance as at 1 January 2017	<b>8,007,056</b>	<b>2,144,172</b>	<b>205,201</b>	<b>(2,070,785)</b>	<b>(349,296)</b>	<b>7,936,348</b>
Changes:						
— Transfer of unappropriated results	—	—	—	(349,296)	349,296	—
— Conversion of liability	—	11,816,372	—	—	—	11,816,372
— Contribution in kind by Stichting BRAC International	—	1,031,713	—	—	—	1,031,713
— Translation differences - share capital	1,096,680	—	(1,096,680)	—	—	—
— Translation differences - participation interest	—	—	564,058	—	—	564,058
— Result for the year	—	—	—	—	1,004,059	1,004,059
Balance as at 31 December 2017	<u>9,103,736</u>	<u>14,992,257</u>	<u>(327,421)</u>	<u>(2,420,081)</u>	<u>1,004,059</u>	<u>22,352,550</u>

# BRAC International Holdings B.V.

## Issued capital

The Company's authorised capital, amounting to EUR 7,600,000 (USD 9,103,736) and in 2016: EUR 7,600,000 (USD 8,007,056), consists of 7,600,000 ordinary shares of EUR 1 each. All shares have been issued and fully paid up.

## Share premium reserve

The share premium concerns the income from the issuing of shares insofar as this exceeds the nominal value of the shares (above par income). In December 2017, the shareholder Stichting BRAC International decided to convert the receivable of USD 11,816,372 from the company into Share Premium as informal capital contribution.

## Foreign currency translation reserve

Exchange gains and losses arising from the translation of foreign operations from functional to reporting currency are accounted for in this statutory reserve. In the case of the sale of a participating interest, the associated accumulated exchange differences are taken to retained earnings.

## Reconciliation of shareholder's equity and net result per the consolidated financial statements with shareholder's equity and net result per the Company financial statements

	2017 USD	2016 USD
Shareholder's equity according to the consolidated balance sheet	<b>74,918,110</b>	48,607,471
Less:		
— Shareholder's equity of affiliated companies, without participating interest:		
- BRAC Uganda Microfinance Company Ltd	<b>28,819,351</b>	23,265,287
- BRAC Tanzania Finance Company Ltd	<b>18,510,626</b>	14,617,663
- BRAC Pakistan	<b>4,388,345</b>	2,431,766
- BRAC Zanzibar	<b>463,511</b>	356,407
-		
— Reversal of impairment	<b>383,727</b>	-
Shareholder's equity according to company balance sheet	<b>22,352,550</b>	7,936,348
Net result according to the consolidated profit and loss account	<b>14,148,087</b>	14,036,195
Less:		
— Surplus of affiliated Foundations, without participating interest		
- BRAC Uganda Microfinance Company Ltd	<b>6,091,360</b>	9,162,865
- BRAC Tanzania Finance Company Ltd	<b>4,451,153</b>	4,061,386
- BRAC Pakistan	<b>2,096,785</b>	1,084,654
- BRAC Zanzibar	<b>121,003</b>	76,586
-		

# BRAC International Holdings B.V.

— Reversal of impairment	<b>383,727</b>	-
Net result according to company profit and loss account	<b>1,004,059</b>	(349,296)

## Proposal for profit appropriation

The General Meeting of Shareholders will be asked to approve the following appropriation of the 2017 result after taxation: to add the result to the retained earnings and legal reserve. In anticipation of the decision by the General Meeting of Shareholders, the result after tax for 2017 has been included under unappropriated result in shareholder's equity.

## 25 Current liabilities

	<b>2017 USD</b>	2016 USD
Related party payables	<b>500,000</b>	10,690,194
Other liabilities	<b>169,074</b>	150,077
	<b>669,074</b>	10,840,271

The shareholder, Stichting BRAC International has paid expenses on behalf of the Company, which has resulted in a balance of USD 500,000 (2016: USD 9.71 million). The amount is payable on demand. In December 2017, Stichting BRAC International decided to convert the receivable of USD 11,816,372 into share premium as capital contribution. All liabilities are payable within one year.

## 26 Off-balance sheet assets and liabilities

The company has a capital commitment of SFRE Fund of USD 4 million. As of 31 December 2017 USD 1,740,000 million is disbursed as at date of the auditor's report.

The company also committed USD 1 million each for BRAC Liberia Microfinance Company Ltd and BRAC Microfinance (SL) Ltd to improve the liquidity in the countries. As of 31 December 2017, USD 500,000 for each country has been disbursed.

The company also provided a corporate guarantee to May Bank Ltd. for Kyat 1.3 billion (USD 1 million) term loan to BRAC Myanmar Microfinance.

# BRAC International Holdings B.V.

## 27 Office expense and professional fees

	2017 USD	2016 USD
Secretariat expenses	1,065,344	996,493
Trust fees	-	6,975
Bank charge	676	1,383
Salaries and benefits	42,411	9,765
Travel and transportation	13,170	261
Rent	23,416	-
Software maintenance cost	19,126	19,487
Professional and consultancy fees	175,055	215,664
Taxation consultancy fees	113,077	84,199
Audit fees	127,630	133,307
Recharging of expense to the subsidiaries	(1,475,582)	(1,237,428)
	<b>104,323</b>	<b>230,106</b>

The group secretariat cost has been allocated between the Company and its parent at the rate of 60% and 40% (2016: 60% and 40%). In 2016, the Company started to recharge its cost to the subsidiaries through charging head office logistics fees which is around 10% of all the project expenses under subsidiaries.

## Salaries and benefits

	2017 USD	2016 USD
Salaries and benefits	35,499	8,119
Social security charges	5,223	1,198
Pension costs	1,689	448
	<b>42,411</b>	<b>9,765</b>

## 28 Financial expenses

	2017 USD	2016 USD
Impairment loss on SFRE Investment Fund (ref note 21)	142,854	252,237
Impairment loss on receivable from subsidiaries	383,727	-
Foreign currency loss	(22,661)	84,909
	<b>503,920</b>	<b>337,146</b>

# BRAC International Holdings B.V.

## 29 Share in result of participating interests after tax

	2017 USD	2016 USD
BRAC Microfinance Sierra Leone Ltd	944,531	122,037
BRAC Liberia Microfinance Company Ltd	592,627	204,868
BRAC Myanmar Microfinance Company Ltd	35,094	(206,702)
BRAC Social Business Enterprise Uganda	(113,985)	(58,796)
BRAC Lanka Investments (Private) Ltd	(3,589)	(18,835)
	<u>1,454,678</u>	<u>42,572</u>

## 30 Auditor's fees

The following fees were charged by KPMG Accountants N.V. to the Company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a(1) and (2) of the Netherlands Civil Code.

	KPMG Accountants N.V. 2017 USD 1,000	Other KPMG Network 2017 USD 1,000	Total KPMG 2017 USD 1,000
Audit of the financial statements	93	160	253
Other audit engagements	–	–	–
Tax-related advisory services	–	125	125
Other non-audit services	–	2	2
	<u>93</u>	<u>287</u>	<u>380</u>
	2016 USD 1,000	2016 USD 1,000	2016 USD 1,000
Audit of the financial statements	70	126	196
Other audit engagements	–	–	–
Tax-related advisory services	–	76	76
Other non-audit services	–	2	2
	<u>70</u>	<u>204</u>	<u>274</u>

## 31 Remuneration of the Management Board

The emoluments, including pension costs as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the Company and group



# BRAC International Holdings B.V.

companies amounted to USD 48,680 (2016: USD 4,845) for current and former managing directors.

The Hague, 21 June 2018

## **The Management Board**

<b>SL</b>	<b>Name</b>	<b>Signature</b>
1.	Mr. Faruque Ahmed	
2.	Mr. Hans Eskes	

## **The Supervisory Board**

<b>SL</b>	<b>Name</b>	<b>Signature</b>
1.	Sir Fazle Hasan Abed KCMG	
2.	Ms. Sylvia Borren	
3.	Dr. Muhammad Musa	
4.	Ms. Parveen Mahmud	

# BRAC International Holdings B.V.

## **Other information**

### **Provisions in the Articles of Association governing the appropriation of profit**

In accordance with the Company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

The Company can only make payments to the shareholder and other parties entitled to the distributable profit insofar as the shareholder's equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by management at the date of each dividend payment.

### **Independent auditor's report**

The independent auditor's report is set forth on the following pages.