BRAC International Holdings B.V.

Financial statements 2012

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Directors' report

Management of the company hereby presents its financial statements for the period ended 31 December 2012.

The company, having its legal address in The Hague and its office address at Teleportboulevard 140, 1043 EJ Amsterdam, is a private limited liability company under Dutch law, with 100% of its shares held by Stichting BRAC International, a foundation, registered in the Netherlands.

The Company's capital consists of shares with a par value of one euro (EUR 1) each.

General information

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;
- 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 acquisition of shares in the capital of the company itself or of a depositary receipt 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 poor and marginalized people. The company plans to venture into social enterprises. Administratively, it also plays a role in consolidating the financial results of all our international microfinance operations. In 2012, BRAC Uganda Microfinance Ltd, BRAC Tanzania Finance Ltd, BRAC Microfinance Sierra Leone Ltd and BRAC Liberia Microfinance (Co) Ltd are part of this consolidation.

The consolidated financial statements include the financial data of the parent company, its group companies and other companies over which the company has 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 that are currently exercisable are taken into account. Group companies exclusively acquired with the view to resale are exempted from consolidation.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, intra-group debts, receivables and transactions are eliminated. The group companies are consolidated in full, with minority interests presented within group equity separate from parent's equity.

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Values

Innovation – the company has been an innovator in the creation of opportunities for the poor 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, socio economic 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.

Legal Structure

BRAC International Holdings B.V. is wholly owned subsidiary of Stichting BRAC International. As of 31 December 2012, all of BRAC International Holdings B.V.'s 18,000 shares are owned an issued to Stichting BRAC International. For investment purposes the number of shares may increase in the future. The additional capital will come from Stichting BRAC International solely. BRAC International Holdings B.V. owns a 51% shareholding in our microfinance entities in Sierra Leone and Liberia and a 100% shareholding in our investment company in Sri Lanka. By way of exercising enough influence over our microfinance entities in Tanzania and Uganda, BRAC International Holdings B.V. is able to consolidate their results of operations with that of BRAC International Holdings B.V.

Directors' responsibility statement

The company's directors are responsible for the preparation and presentation of the consolidated financial statements, comprising the consolidated balance sheet as at 31 December 2012 and the consolidated profit and loss account for the year ended 31 December 2012. They are also responsible for the notes to the consolidated financial statements. The notes include a summary of significant accounting policies and other explanatory notes, in accordance with those stated in the financial statements, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The directors have made an assessment of the organization'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.

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The internal organization and staffing level

The company is under the supervision of the Board of Directors 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 2,858 personnel:

- Uganda : 1,452
- Tanzania : 834
- Sierra Leone : 309
- Liberia : 263

Board Members

The following board members served during the period:

1. Sir Fazle Hasan Abed
2. Dr. Mahabub Hossain
3. Muhammad A. (Rumee) Ali
4. Susan Davis
5. Sylvia Borren
6. Orangefield Trust (Netherlands) B.V.

The company is managed by a Board of Directors consisting of one Director A and two or more Directors B. 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 authority to represent the company is vested in a Director A and a Director B acting jointly.

Directors B:

Sir Fazle Hasan Abed
Dr. Mahabub Hossain
Muhammad A. (Rumee) Ali
Susan Davis
Sylvia Borren

Director A:

Orangefield ~~Trust~~ (Netherlands) B.V.

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Financial information

The company's financial performance during the year ended 31 December 2012 is as follows:

- Interest income on loans increased by 135% from EUR 7,706,984 in 2011 to EUR 18,154,161 in 2012.
- Loans and advances to customers increased by 80% from EUR 17,013,375 in 2011 to EUR 30,657,679 in 2012.
- Cash and cash equivalents increased by 91% from EUR 7,539,926 in 2011 to EUR 14,389,883 in 2012.
- Operating expenses increased by 107% from EUR 7,084,273 in 2011 to EUR 14,657,038 in 2012.
- Total assets increased by 83% from EUR 25,780,761 in 2011to EUR 47,303,860 in 2012.

During the year, the Company had an attributable profit of EUR 3,251,088 (2011: profit was EUR 1,095,648).

Financial Position and analysis as per Balance Sheet and Income Statement

- Operating Self Sufficiency = Financial income/total cost
  = EUR 19,289,133/EUR 17,206,340
  = 112%
- Return on Performing Assets = Financial income/average total assets
  = EUR 19,289,133/EUR 36,542,311
  = 53%
- Operating Cost Ratio = Operating cost/average total assets
  = EUR 13,187,894/EUR 36,542,311
  = 36%
- Cash Position Indicator = Cash and deposits due from banks/average total assets
  = EUR 14,389,883/EUR 36,542,311
  = 39%
- Donor Dependency Ratio = Donor (grant) income/total income
  = EUR 1,539,880/EUR 21,773,228
  = 7%
- Income Utilization Ratio = Total expenditure/total income
  = EUR 17,206,340/EUR 21,773,228
  = 79%

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Outlook

Investment

BRAC International Holdings B.V. is continuously looking for investment opportunities in the matured microfinance markets abroad. In 2013, there is plan to convert our Sri Lanka operation into a regulated finance company with Triodos and Lanka Orix, a local partner. We want to continue our microfinance operations under this joint venture and eventually add other hire purchase and leasing products. In Uganda, the authorities advised us strongly to convert our microfinance institution to a regulated entity based on sheer size and our outreach. Our social enterprise in Uganda will also be brought under the purview of BRAC International Holdings B.V. in 2013. We are in the process of purchasing a seed processing machine for our seed enterprise that would kick start the unit in August of 2013.

Financing

The financing of these ventures is coming from a mixed variety of sources. Stichting BRAC International infusing capital into BRAC International Holdings B.V. is one source. Quite often we are trying to partner with reputable local and international companies and attracting additional capital. The donor community is also helping us fund some of these endeavors.

Signing off Board

The financial statements were approved by the Board of Directors and are signed on its behalf by:

Dhaka, 23 June 2013

Tanwir Rahman, CPA

Director Finance, BRAC & BRAC International

Orangefield (Netherlands) B.V.
Managing Director

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Consolidated balance sheet as at 31 December 2012

(after allocation of result)

		2012		2011	
		EUR	EUR	EUR	EUR
Fixed assets					
Tangible fixed assets	1	639,460		618,108	
Financial fixed assets	2	30,657,679		17,013,375	
			31,297,139		17,631,483
Current assets					
Inventories	3	24,321		16,161	
Trade and other receivables	4	1,592,517		593,191	
Cash and cash equivalents	5	14,389,883		7,539,926	
			16,006,721		8,149,278
			47,303,860		25,780,761
Group equity	6				
Shareholders' equity		12,837,271		6,077,036	
Minority interests		2,165,252		2,908,992	
			15,002,523		8,986,028
Provisions			–		–
Non-current liabilities	7		20,726,344		12,657,230
Other liabilities	8		11,574,993		4,137,504
			47,303,860		25,780,761

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Consolidated profit and loss account for the year ended 31 December 2012

		2012		2011	
		EUR	**EUR**	EUR	EUR
Net turnover	*11*	**18,154,161**		7,706,984	
Other operating income	*12*	**2,739,609**		1,466,058	
Total operating income			**20,893,770**		9,173,042
Wages and salaries	*13*	**(7,969,821)**		(3,631,306)	
Amortization and depreciation on intangible and tangible fixed assets		**(208,455)**		(104,629)	
Impairment losses on loans and advances to customers		**(1,469,145)**		(747,119)	
Other operating expenses	*14*	**(5,009,617)**		(2,601,219)	
Total operating expenses			**(14,657,038)**		(7,084,273)
Operating result			**6,236,732**		2,088,769
Interest income and similar income		**879,458**		566,129	
Interest expenses and similar charges		**(2,549,302)**		(1,514,737)	
			(1,669,844)		(948,608)
Result from ordinary activities before tax			**4,566,888**		1,140,161
Tax on result from ordinary activities	*15*		**(1,900,668)**		(433,366)
Result after tax			**2,666,220**		706,795
Minority interests			**584,868**		388,853
Net result			**3,251,088**		1,095,648

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Consolidated cash flow statement for the year ended 31 December 2012

	2012		2011	
	EUR	EUR	EUR	EUR
Cash flow from operating activities				
Result after tax		2,666,220		706,794
Adjusted for:				
• Depreciation/amortization/other value adjustments	208,455		104,629	
• Changes in provisions	–		–	
• Changes in working capital (excluding cash and cash equivalents and short-term bank overdrafts)	(7,214,303)		(3,195,163)	
Cash flow from business operations		(7,005,848)		(3,090,534)
Cash flow from operating activities		(4,339,628)		(2,383,740)
Investments in:				
• Tangible fixed assets	(216,630)		(139,932)	
Acquisition of group companies	–		–	
Cash flow from investing activities		(216,630)		(139,932)
Net change in borrowings	7,471,886		(586,461)	
Changes in donor grant	597,230		(1,208,433)	
Share premium	3,968,402		–	
Donated equity	–		722,004	
Minority interest	(743,740)		304,837	
Cash flow from financing activities		11,293,778		(768,054)
Net cash flow		6,737,520		(3,291,726)
Exchange rate and translation differences on cash and cash equivalents		112,437		160,495
Changes in cash and cash equivalents		6,849,957		(3,131,231)

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Consolidated statement of recognised income and expenses for the year ended 31 December 2012

	2012		2011	
	EUR	EUR	EUR	EUR
Consolidated net result after tax attributable to the company		**3,251,088**		1,096,648
Translation differences on foreign participating interests	**(459,255)**		–	
Realised revaluation gain charged directly to shareholders' equity	–		–	
Total of items recognised directly in shareholders' equity of the company as part of the group entity		**(459,255)**		–
Total result of the legal entity		**2,791,833**		1,096,648

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Notes to the 2012 consolidated financial statements

General

Relationship with parent company and principal activities

The company, having its legal address in The Hague and its office address at Teleport-boulevard 140, 1043 EJ Amsterdam, is a private limited liability company under Dutch law, with 100% of its shares held by Stichting BRAC International.

Financial reporting period

The financial statements are for the period from 1 January 2012 to 31 December 2012.

Basis of preparation

The financial statements have been prepared in accordance with Title 9, Part 2 of the Netherlands Civil Code.

The applied accounting policies are based on the historical cost convention.

Going concern

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

Accounting policies

General

Unless stated otherwise, assets and liabilities are shown at nominal value.

An asset is disclosed 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 cost of the asset can be measured reliably. A liability is recognized in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognized 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 recognized 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.

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If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities transfer to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

The revenue and expenses are allocated to the period to which they relate. Revenues are recognized when the company has transferred the significant risks and rewards of ownership of the goods to the buyer.

The financial statements are presented in euros, the company's functional currency.
All financial information in euros has been rounded.

Use of estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognized in the period in which the estimate is revised and in future periods for which the revision has consequences.

Consolidation principles

The consolidated financial statements include the financial data of the company, its group companies and other companies over which the company has 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 that are currently exercisable are taken into account. Group companies exclusively acquired with the view to resale are exempted from consolidation.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, intra-group debts, receivables and transactions are eliminated. The group companies are consolidated in full with minority interests presented within group equity separate from parent's equity.

For a summary of the consolidated group companies, please refer to note 16 'Financial fixed assets'.

Principles for the translation of foreign currency

Transactions in foreign currencies

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 to the functional currency at the exchange rate applying on that date.

Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into euros at the applicable exchange rates applying on the transaction date. Translation gains and losses are taken to the profit and loss account as expenditure.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into euros at exchange rates applying on the balance sheet date. Income and expenses of foreign operations are translated into euros at the exchange rate applying on the transaction date.

Translation gains and losses are taken to the foreign currency translation reserve. If a foreign operation is fully or partially sold, the respective amount is transferred from this reserve to the profit and loss account.

Financial instruments

Financial instruments include investments in shares and bonds, trade and other receivables, cash items, loans and other financing commitments, and trade and other payables.

Financial instruments also include derivative financial instruments (derivatives) embedded in contracts. Derivatives embedded in contracts shall be separated from the host contract and accounted for as a separate financial instrument if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value with changes in fair value recognized through profit and loss.

Financial instruments, including derivatives separated from their host contracts, are initially recognized at fair value. If instruments are not measured at fair value through profit and loss, then any directly attributable transaction costs are included in the initial measurement.

Financial instruments embedded in contracts that are not accounted for separately from the host contract are recognized in accordance with the host contract.

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

Financial instruments held for trading

Financial instruments (assets and liabilities) held for trading are carried at fair value and changes in the fair value are recognized in the profit and loss account. In the first period of recognition, attributable transaction costs are charged to the profit and loss account.

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Purchased loans and bonds

Purchased loans and bonds which the company intends to hold to maturity (and is capable of doing so), are measured at amortized cost on the basis of the effective interest method, less impairment losses.

If listed on a stock exchange, other purchased loans and bonds are carried at fair value. Changes in the fair value are recognized in the profit and loss account. Unlisted purchased loans and bonds are carried at amortized cost on the basis of the effective interest method, less impairment losses.

Loans granted and other receivables

Loans granted and other receivables are carried at amortized cost on the basis of the effective interest method, less impairment losses.

Investments in equity instruments

The group's investments in shares, provided these are listed, are carried at fair value following their initial recognition. Until derecognition, changes in the fair value are recognized directly in equity to the extent that the result of the individual investment is cumulatively positive. Upon derecognition of the investment, the cumulative result recognized in equity is transferred to the profit and loss account. Any cumulative decrease in fair value to below cost is recognized in the profit and loss account.

The group's investments in unlisted shares are carried at cost.

Equity-based transactions

The fair value of the scheme for staff to purchase the company's own shares is valued with the aid of the 'Monte Carlo' sampling model. The fair value of options granted to employees is determined with the aid of the Black-Scholes formula. Valuation factors include the share price on the valuation date, the exercise price of the instrument, the expected volatility (based on an evaluation of the historic volatility, particularly during a past period that corresponds with the expected term), the expected term of the instruments (based on experience from the past and the behavior of the instrument holders), the expected dividends and the risk-free interest rate (on the basis of government bonds). Service provision and non-market related conditions are not taken into account in determining the fair value.

Other financial commitments

Financial commitments that are not held for trading are carried at amortized cost on the basis of the effective interest rate method.

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Principles for valuation of assets and liabilities

Tangible fixed assets

Land and buildings, plant and equipment, other fixed operating assets, tangible fixed assets in production and prepayments on tangible fixed assets are stated at cost of acquisition or manufacture, less accumulated depreciation.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, such as production cost, production overhead cost and interest paid to third parties during the period of construction or manufacturing.

Government grants are deducted from the cost price of the assets to which the grants relate.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item of the tangible fixed assets. Land, tangible fixed assets in production and prepayments on tangible fixed assets are not depreciated.

The following rates of depreciation are applied:

- Equipments : 15 - 33%.
- Vehicles : 20%.
- Other : 10%.

Maintenance expenditure is only capitalized when the maintenance extends the useful life of the asset.

Tangible fixed assets, for which the company and its group companies possess the economic ownership under a financial lease, are capitalized. The obligation arising from the financial lease contract is recognized 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.

Financial fixed assets

Participating interests where significant influence is exercised over the business and financial policy are valued according to the equity method on the basis of net asset value. The net asset value is calculated on the basis of the company's accounting policies. Participating interests with a negative net asset value are valued at nil. If the company guarantees for the debts of the relevant participating interest, a provision is recognized. This provision is recognized primarily to the debit of the receivables on the respective participating interest and for the remainder presented under provisions for the part of the share of the losses incurred by the participating interest, or for the estimated payments by the company on behalf of these participating interests.

Participating interests where no significant influence is exercised are stated at cost less any accumulated impairment losses.

Loans to non-consolidated participating interest are included at amortized cost using the effective interest method, less impairment losses.

The 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. Interest income is recognized in the profit and loss account as it accrues, using the effective interest rate method. Any profit or loss is recognized in the profit or loss as accounted for under financial income or expenses.

Bonds, listed and unlisted, recognized under financial fixed assets that are not held as part of a trading portfolio and which will be held to maturity, are valued at their amortized cost.

Loans and advances to customers

These are stated net of allowance for impairment losses on loans and advances to customers. Loan and advances are recorded at fair value of the consideration provided to customers.

Management regularly assesses the adequacy of the allowance for impairment based on the age of the loan portfolio. At each month-end BRAC calculates the required provision for loan losses based on loan classification and provisioning methodology which is shown below and any adjustments, if required, are made and accounted for in the financial statements for the year.

Days in arrear	Provision required
No arrear	2-3%
1-30	5%
31-90	20%
91-360	75%
360+	100%

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 after being classified 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 the loan is not realizable due to death, dislocation of the borrower or any other natural or humanitarian disaster that affects the livelihood of the borrowers. Subsequent recoveries are credited as income in the profit and loss account.

Impairment

Assets with a long life should be tested for impairment in the case of changes or circumstances arising that lead to an indication that the carrying amount of the asset will not be recovered. The recoverability of assets in use is determined by comparing the carrying amount of an asset with the estimated present value of the future net cash flows which the asset is expected to generate.

If the carrying amount of an asset exceeds the estimated present value of the future cash flows, impairment is charged to the difference between the carrying amount and the recoverable amount.

Disposal of fixed assets

Assets available for sale are stated at the lower of their carrying amount and net realisable value.

Inventories

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.

Receivables and securities

The accounting policies applied for the valuation of trade and other receivables and securities are described under the heading 'Financial instruments'.

Shareholders' equity

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' 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 recognized in the profit and loss as financial income or expense.

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

Provisions should be valued at the nominal value of the expenses expected to be incurred in settling the liabilities and losses.

A provision is recognized if the following applies:

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

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'.

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Revenue recognition

Service charge on loan

Services charges on loans to customers are recognized in the profit and loss account using the effective interest rate method (EIR). EIR is a method to calculate the amortized cost of a financial asset and to allocate the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, BRAC estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Membership fees and other charges

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

Other income

Other income comprises gains less losses related to trading assets and liabilities, and includes gains from disposal of BRAC assets and all realized and unrealized foreign exchange differences and grant income.

Donor grants

All donor grants received are initially recognized as deferred income at fair value and recorded as liabilities.

Donor grants are recognized 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 recognized as 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 recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Share in result of participating interests

The share in the result of participating interests consists of the share of the group in the result of these participating interests. Results on transactions, concerning a the transfer of assets and liabilities between the group and a non-consolidated participating interest and mutually between non-consolidated participating interests themselves, are not recognized as they can be deemed as not realized.

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

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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 recognized in the profit and loss account except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

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

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.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. 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 realized.

Cash flow statement

The cash flow statement is prepared using the indirect method. Cash flows in foreign currency are translated into euros using the weighted average exchange rates at the dates of the transactions.

Cash flows from financial derivatives that are stated as fair value hedges or cash flow hedges are attributed to the same category as the cash flows from the hedged balance sheet items. Cash flows from financial derivatives to which hedge accounting is no longer applied, are categorized in accordance with the nature of the instrument as from the date on which the hedge accounting is ended.

1 Tangible fixed assets

Movements in tangible fixed assets were as follows:

	Equipment	Motor vehicles	Others	Total
	EUR	EUR	EUR	EUR
Cost				
As at 1 January 2011	364,511	82,054	315,939	762,504
Additions	56,578	27,819	55,536	139,933
As at 31 December 2011	421,089	109,873	371,475	902,437
Additions	126,905	52,388	114,969	294,261
Disposal	–	(11,581)	–	(11,581)
Transfer difference	(30,541)	(8,398)	(27,111)	(66,050)
As at 31 December 2012	517,453	142,282	459,332	1,119,067
Depreciation				
As at 1 January 2011	85,799	36,824	57,077	179,700
Charge for the year	51,260	20,070	33,300	104,629
As at 31 December 2011	137,059	56,894	90,376	284,329
Charge for the year	102,279	34,554	66,009	202,842
Adjustment for disposal	–	(6,473)	–	(6,473)
Transfer difference	–	(1,091)	–	(1,091)
As at 31 December 2012	239,338	83,884	156,385	479,607
Book value				
As at 31 December 2012	278,115	58,398	302,947	639,460
As at 31 December 2011	284,030	52,979	281,099	618,108

2 Financial fixed assets

Loans and advances to customers

	2012 EUR	2011 EUR
Principal loan outstanding	**32,862,520**	18,444,643
Loan written-off	**(932,873)**	(462,724)
Interest receivable	**371,754**	233,451
Impairment loss on loans advance	**(1,643,722)**	(1,201,995)
	30,657,679	17,013,375

Principal loan outstanding

	2012 EUR	2011 EUR
Group loans	**28,045,236**	14,041,934
Small enterprises programme	**4,224,257**	3,885,889
ELA	**593,027**	516,820
	32,862,520	18,444,643

3 Inventories

	2012 EUR	2011 EUR
Inventories	**24,321**	16,161

No provision for obsolete inventories seemed necessary (2011: EUR 0).

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4 Trade and other receivables

	2012 EUR	2011 EUR
Advances to third parties	**339,835**	125,695
Receivable from NGOs	**362,328**	192,430
Deferred tax asset	**662,883**	146,119
Deposits, prepayments and others	**227,471**	128,947
	1,592,517	593,191

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.

5 Cash and cash equivalents

	2012 EUR	2011 EUR
Cash in hand	**95,167**	97,730
Cash at bank	**9,057,827**	3,780,668
Short term deposits	**5,236,889**	3,661,528
	14,389,883	7,539,926

All cash is available on demand other than amounts funded by donors and still to be utilized in projects.

6 Group equity

Minority interests

	2012 EUR	2011 EUR
BRAC Microfinance (Sierra Leone) Ltd	**894,731**	1,378,898
BRAC Liberia Microfinance Company Ltd	**1,270,521**	1,530,094
	2,165,252	2,908,992

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This balance sheet heading covers the third-party minority interests, representing the share of third parties in the shareholders' equity of the group companies BRAC Microfinance (Sierra Leone) Ltd and BRAC Liberia Microfinance Company Ltd.

7 Non-current liabilities

	2012	2011
	EUR	EUR
Borrowings	**18,766,479**	11,294,592
Donor funds	**1,959,865**	1,362,638
	20,726,344	12,657,230

Borrowings

	2012	2011
	EUR	EUR
BRAC Africa Loan Fund	**15,154,864**	9,494,291
Triple Jump B.V.	**276,115**	652,644
BRAC Bangladesh	**765,601**	763,360
Financial Sector Deepening Trust	**1,995,122**	–
Others	**574,777**	384,297
	18,766,479	11,294,592

Loan received from BRAC Africa Microfinance Limited for BRAC Uganda of UGX 30,613,644,432 (EUR 9,494,291) was obtained to support to microfinance programmes and bears interest at 12% per annum. It is repayable in 16 quarterly instalments, starting from December 2012. This loan is not secured.

Loan received from Triple Jump B.V. for BRAC Uganda of UGX 1,955,303,750 (EUR 652,644) was obtained for support to microfinance programmes and bears interest at 14.5% per annum. The borrower shall repay the loan in one instalment, 60 months after the commencement date. This loan is not secured.

Loan received from BRAC Bangladesh of USD 1,305,965 (equivalent to UGX 2,187,915,685 and EUR 763,360) was obtained for support to microfinance programmes and is repayable within 12 months after five years of disbursement. It bears interest at 8% per annum. This loan is not secured.

Loan received from Financial Sector Deepening Trust for BRAC Tanzania Finance Ltd carries an interest of 10%, is repaid in equal quarterly instalments of TZS 282,458,050 and shall be fully repaid by September 2016. During the year, the company received an additional loan amounting to TZS 2,305,780,000.

Loan Received from Stichting Hivos Triodos Fonds of TZS 1.75 billion was received on 7 August 2007 to be repaid within five years at six equal instalments every six months, commencing from 1 January 2010. The interest rate on the loan is 14% per annum fixed until 1 July 2008 and 14.5% subsequently.

Loan received from BRAC Africa Microfinance Limited for BRAC Tanzania Finance Ltd of USD 10.25 million was obtained to support to microfinance programmes and bears interest at 12% per annum.

None of the before mentioned loans are fixed.

Donor funds

	2012 EUR	2011 EUR
Donor funds received in advance	**1,059,780**	490,503
Donor funds invested in fixed assets	**369,055**	335,355
Donor funds invested in loan fund	**531,030**	536,778
	1,959,865	1,362,638

All amounts are due within one year.

Donor funds received in advance

	2012 EUR	2011 EUR
Opening balance as at 1 January	**490,503**	1,711,405
Received during the year	**2,118,042**	1,121,875
Transferred to donated equity	–	(1,414,922)
Transferred to deferred income	**(109,192)**	(82,893)
Transferred to donor fund investment in loan	**(31,026)**	(85,720)
Released to income statement	**(1,446,606)**	(759,242)
Other	**38,059**	–
Closing balance as at 31 December	**1,059,780**	490,503

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Donor funds invested in fixed assets

	2012 EUR	2011 EUR
Opening balance as at 1 January	**335,355**	284,583
Transferred from donor funds received in advance	**109,192**	82,893
Depreciation charged for the year released to the profit and loss account	**(51,473)**	(32,121)
Other	**(24,019)**	–
Closing balance as at 31 December	**369,055**	335,355

8 Other liabilities

	2012 EUR	2011 EUR
Loan Security Fund	**6,560,723**	3,494,902
Accrued expenses	**489,436**	9,355
Payable to BRAC Bangladesh	**688,151**	47,534
Payable to Stichting BRAC International	**2,388,538**	138,377
Tax payable	**405,942**	73,721
Other liabilities	**1,042,203**	373,615
	11,574,993	4,137,504

The Loan Security Fund acts as collateral for the customers' loan obligations to BRAC. This is computed as 10% of the customers' approved loan. In the event of any default, BRAC forfeits all or part of the Loan Security Fund to the extent of the amount at risk.

9 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 on 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 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.

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Credit risk

There is no inherent credit risk identified.

Currency risk

The Group is exposed to currency risk that are 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 the euro (EUR). The currency in which transactions primarily are denominated is USD.

Interest rate risk and cash-flow risk

The interest rate risk is limited to possible changes in the fair value of loans taken up and granted. There are no further risks identified relating to interest rate and cash flow.

10 Off-balance sheet assets and liabilities

There are no off-balance sheet assets and liabilities.

11 Net turnover

The breakdown of net turnover by country is as follows:

	2012	2011
	EUR	EUR
BRAC Microfinance (Sierra Leone) Ltd.	**885,190**	755,261
BRAC Liberia Microfinance company Ltd.	**1,225,653**	1,075,717
BRAC Uganda Microfinance Ltd.	**7,831,522**	5,876,006
BRAC Tanzania Finance Ltd.	**8,211,796**	–
	18,154,161	7,706,984

Service charges denote the interest income earned on loans and advances disbursed.

12 Other operating income

	2012	2011
	EUR	EUR
Fees and commission income	**975,767**	502,233
Grant income	**1,539,880**	791,361
Foreign exchange gains	**64,757**	41,234
Other income	**159,205**	131,229
	2,739,609	1,466,058

13 Wages and salaries

	2012 EUR	2011 EUR
Salaries and benefits	**7,969,821**	3,631,306

During the 2012 financial year, the average number of staff employed in the group, converted into full-time equivalents, amounted to 2,858 people. All people were employed outside the Netherlands.

14 Other operating expenses

	2012 EUR	2011 EUR
Maintenance and general expenses	**1,395,408**	661,140
Travel and transportation	**1,314,980**	724,926
HO logistics and management expenses	**739,029**	345,425
Office rent	**485,940**	215,374
Printing and office stationery	**273,446**	158,004
Utilities	**180,432**	118,937
Staff training and development	**150,865**	88,622
Audit fees	**123,727**	93,397
Other expenses	**345,790**	195,395
	5,009,617	2,601,219

15 Tax result from ordinary activities

The effective tax burden deviates from the nominal (applicable) tax burden. This deviation is due to the results in the different tax jurisdictions. These results are taxable in the individual tax jurisdictions. The nominal tax rates within the entities differ.

16 Transactions with related parties

Transactions with related parties occur when a relationship exists between the company, its participating interests and their directors and key management personnel.

Following balances with related parties existed at the year-end:

- Payable to Stichting BRAC International : EUR 2,388,538.
- Payable to BRAC : EUR 688,151.

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Separate balance sheet as at 31 December 2012

(after profit appropriation)

		2012	2011
		EUR	EUR
Fixed assets			
Financial fixed assets	*17*	**12,700,006**	6,111,098
Current assets			
Trade and other receivables		–	–
Cash and cash equivalents	*18*	**2,002,353**	18,173
		14,702,359	6,129,271
Shareholders' equity	*19*	**12,837,271**	6,077,036
Provisions		–	–
Non-current liabilities		–	–
Current liabilities	*20*	**1,865,088**	52,235
		14,702,359	6,129,271

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Separate profit and loss account for the year ended 31 December 2012

		2012		2011	
		EUR	EUR	EUR	EUR
Net turnover		–		4,501,228	
Cost of sales		–		–	
Gross margin on turnover			–		4,501,228
General and administrative expenses	*22*	312,987		20,603	
Total operating expenses			312,987		20,603
Net result on turnover			(312,987)		4,480,625
Financial income and expenses	*23*		(15,686)		27
Result from ordinary activities before taxation			(328,673)		4,480,652
Taxation on result from ordinary activities				–	
Share of result from participating interests		3,579,761		1,609,870	
			3,579,761		1,609,870
Net result			3,251,088		6,090,522

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Notes to the 2012 separate financial statements

General

The separate financial statements are part of the 2012 financial statements of the group.

Insofar as no further explanation is provided of items in the separate balance sheet and the separate 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 profit and loss account, with the exception of the following:

Financial instruments

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

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 unrealized, they have not been recognized.

17 Financial fixed assets

	2012 EUR	2011 EUR
Balance as at 1 January	**6,111,098**	–
• Acquisition	**3,468,402**	4,501,228
• Foreign currency translation differences	**(459,255)**	–
• Result of subsidiaries	**3,579,761**	1,609,870
Balance as at 31 December	**12,700,006**	6,111,098

The group has the following capital interests:

Name	Effective date of acquisition	Registered office	Percentage of holdings
BRAC Microfinance Sierra Leone Ltd	1 January 2011	23, Old Lumly Road, Free Town, Sierra Leone	**51**
BRAC Liberia Microfinance Ltd	1 January 2011	Kongo Town, Monrovia, Liberia	**51**
BRAC Uganda Microfinance Ltd	1 January 2011	90, Busingiri Zone, Kampala, Uganda	**100**
BRAC Tanzania Finance Ltd	1 January 2012	Plot 2329, Block H, Mbezi Beach, Dar es Salaam, Tanzania	**100**

Within the comparative figures, the figures of BRAC Tanzania Finance Ltd are not included due to the fact that this entity is incorporated as from 1 January 2012. Hereafter we have set out the most significant figures of BRAC Tanzania Finance Ltd which were included in the financial statements.

	EUR
Cash and cash equivalents	**3,589,122**
Loans and advances to Customer	**14,223,067**
Borrowings	**(8,542,984)**
Total assets	**18,654,594**
Service Charge on Loans	**8,211,796**
Staff costs	**(2,844,045)**
Other Operating expenses	**(1,641,547)**
Interest Expenses	**(1,035,588)**
Net profit	**1,769,614**

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18 Cash and cash equivalents

Cash and cash equivalents are available on demand.

19 Shareholders' equity

	Issued capital	Share premium	Foreign currency translation reserve	Retained earnings	Total
	EUR	EUR		EUR	EUR
Balance as at 1 January	18,000	–	–	6,059,036	6,077,036
Changes:					
• Issue of share premium	–	500,000	–	–	500,000
• Informal capital contribution	–	3,468,402	–	–	3,468,402
• Retained earnings	–	–	–	3,251,088	3,251,088
• Translation differences	–	–	(459,255)	–	(459,255)
Balance as at 31 December	18,000	3,968,402	(459,255)	9,310,124	12,837,271

Issued capital

The company's authorized capital, amounting to EUR 18,000 (2011: EUR 18,000), consists of 18,000 ordinary shares of EUR 1 each.

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).

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.

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20 Current liabilities

	2012 EUR	2011 EUR
Debts to shareholders/participants	**1,835,088**	46,285
Other liabilities	**30,000**	5,950
	1,865,088	52,235

21 Off-balance sheet assets and liabilities

There are no off-balance sheet assets and liabilities.

22 General and administrative expenses

	2012 EUR	2011 EUR
Professional fees and other expenses	**282,987**	154
Audit fees	**30,000**	5,950
Trust fee	–	14,463
Bank charges	–	36
	312,987	20,603

23 Financial income and expenses

	2012 EUR	2011 EUR
Foreign exchange loss	**(15,686)**	–
Bank interest	–	27
	(15,686)	27

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24 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. 2012 EUR x 1,000	Other KPMG network 2012 EUR x 1,000	Total KPMG 2012 EUR x 1,000
Audit of the financial statements	30	60	90
Other audit engagements	–	–	–
Tax-related advisory services	–	15	15
Other non-audit services	–	–	–
	30	75	105

	KPMG Accountants N.V. 2011 EUR x 1,000	Other KPMG network 2011 EUR x 1,000	Total KPMG 2011 EUR x 1,000
Audit of the financial statements	25	54	79
Other audit engagements	–	–	–
Tax-related advisory services	–	18	18
Other non-audit services	–	–	–
	25	72	97

25 Remuneration of the Board of Directors

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 companies amounted to EUR nil (2011: EUR 0) for managing directors and former managing directors.

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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 shareholders and other parties entitled to the distributable profit insofar as the shareholders' 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.

Proposal for profit appropriation

The General Meeting of Shareholders will be asked to approve the following appropriation of the 2012 result after taxation: to add the result to the retained earnings. In anticipation of the decision by the General Meeting of Shareholders, the result after tax for 2012 has been included under retained earnings in shareholders' equity.

Subsequent events

There are no subsequent events to report.

Independent auditor's report

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

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Independent auditor's report

To: the General Meeting of Shareholders of BRAC International Holdings B.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of BRAC International Holdings B.V., 's-Gravenhage, which comprise the consolidated and the separate balance sheet as at 31 December 2012, the consolidated and the separate profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the annual report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of BRAC International Holdings B.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the annual report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the annual report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 12 June 2013

KPMG Accountants N.V.

W. Tjoelker RA