ANNUAL REPORT 2017

brac

BRAC IN PHILIPPINES

2017 ANNUAL REPORT

If you were to describe this world, which one of the following would you pick?

It is home to magic, art, beauty, and tens of thousands of years of human talent. Or would you say, even though it may be true, that our world is where we live, but it is a place that doesn't work for everyone? Our world is our playground, a platform for the creativity of all seven billion of us.

Sometimes it's hard to believe that a world that works for all of us can be possible. But the opportunities are all around us.

While we all hope for a better future for our world, many of us are building it. If you are a builder, we are betting on you.

The changemaker
The activist
The hero
The mentor

45 years ago, we started building a world we all want to live in.
We started in Bangladesh.
We listened and learnt, failed and got up again.
We never stopped trying.
And we never will.

We trust in people, and we take on the impossible,
every day. Changing systems of inequity.
Turning potential into skill.
Ready to go to the end of every last mile,
where there are no other signs.

It takes us all to build a world that
works for us all.

We listen, pilot, perfect and scale.
Our DNA is to build.

As the sun rose this morning,
hundreds of thousands of builders rose with it.

Teachers across eight countries opened the colourful doors of the world's biggest secular private education system.
65,000 artisans picked up their needles and started weaving traditional art into beautiful clothing.

Credit officers in one of the world's largest microfinance institutions sat down with women in the remotest corners of seven countries.

Whoever you are, wherever you are, doing good is everyone's business.
We have never faced bigger challenges but we have never been more ready.
Join the world's biggest family.

Small is beautiful, scale is necessary.

Here at BRAC, we are many things:

- social enterprise
- non-government organisation
- public forum
- knowledge hub
- social investors
- policy advocates
- university
- crisis responders

and we bring together many different people:

- changemakers
- activists
- heroes
- mentors

inspired by a single vision. Building a world that works for all of us takes all of us. Get onboard:

- follow us
- share the ideas
- partner with us
- take action

Join the world's biggest family.

BUILDING A WORLD THAT WORKS FOR ALL OF US

We act as a catalyst, creating opportunities for people living in poverty to realise their potential. We specialise in piloting, perfecting and scaling innovations to impact the lives of millions. We were born in Bangladesh, are almost completely self-sustainable through our own network of social enterprises and investments, and operate in 11 countries across Asia and Africa.

VISION, MISSION AND VALUES

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

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.

Integrity **Innovation** **Inclusiveness** **Effectiveness**

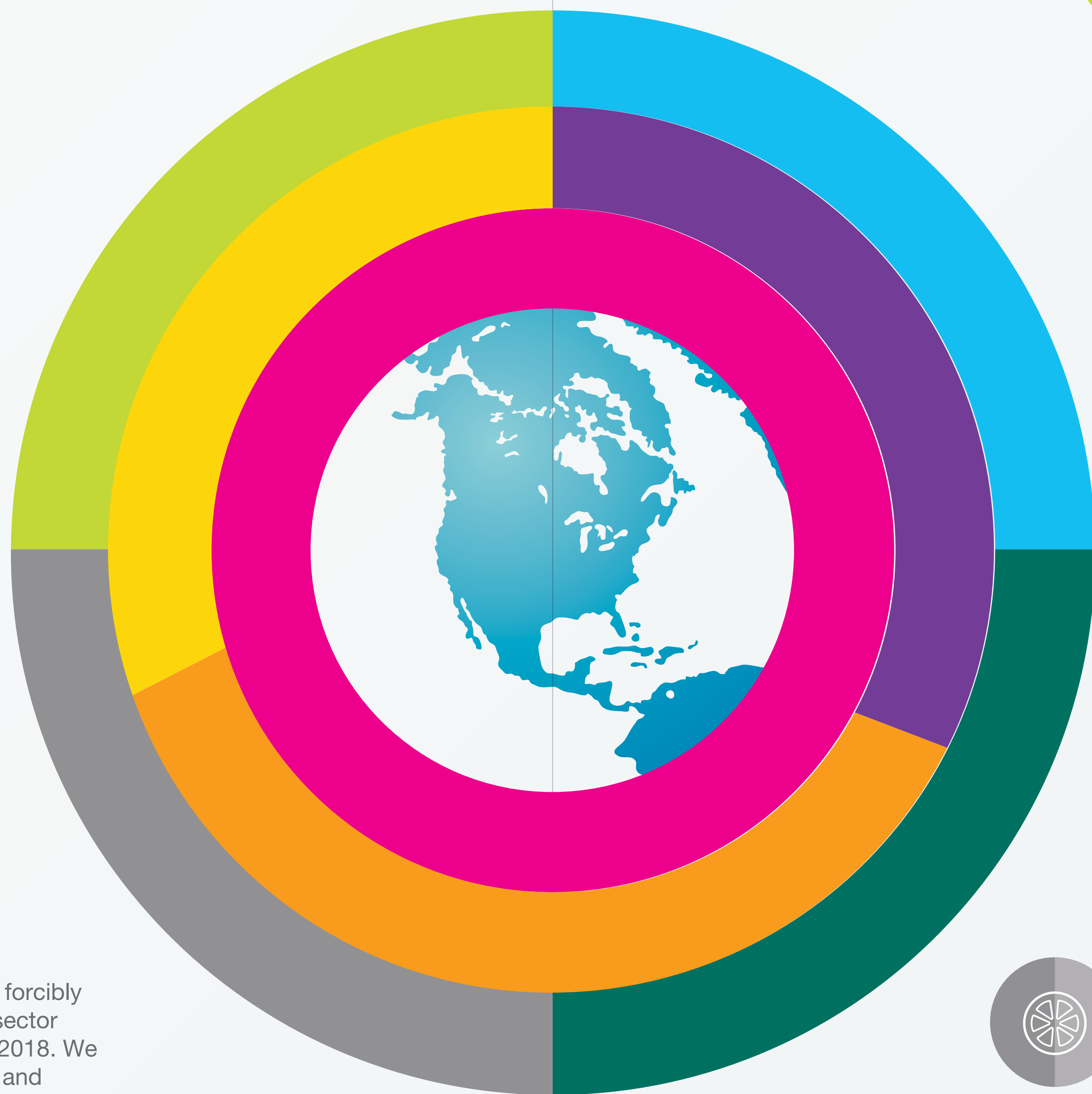
SOCIAL DEVELOPMENT

Eliminating extreme poverty, Expanding financial choices, Employable skills for decent work, Climate change and emergencies, Gender equality, Universal healthcare, Pro-poor urban development, Investing in the next generation.

Country offices: Afghanistan, Bangladesh, Liberia, Myanmar, Nepal, Pakistan, Philippines, Sierra Leone, South Sudan, Tanzania, Uganda

HUMANITARIAN RESPONSE

We have been providing life-saving services to forcibly displaced Myanmar nationals through a multi-sector response since the influx began in September 2018. We are working closely with the government, local and international NGOs and other stakeholders through the Inter Sector Coordination Group.



SOCIAL ENTERPRISES

Solution for social challenges and surplus for greater impact: Initiatives that engage individuals, micro and small enterprises as suppliers, producers and consumers.

INVESTMENTS

Socially responsible companies that assist us in our mission. Our network of investments help us strive towards the goal of self-sustainability.

BRAC UNIVERSITY

An educational institution's goal is not only to provide the highest quality teaching, but also to inculcate the values essential for tomorrow's leaders. The journey starts by building a high calibre and supportive faculty and administration team who are capable of teaching the most challenging and up-to-date educational programmes, and empowering them with knowledge and life skills so that they can take on the challenges of building themselves and a better nation.

STICHTING BRAC INTERNATIONAL

AFFILIATES

BRAC USA

BRAC UK

CONTENTS

CHAIRPERSON'S FOREWORD

Over recent years, significant investments have been made to ensure the survival and optimal development of children during the first decade of life. Globally, the under-five mortality rate has decreased significantly. Around 20,000 fewer children died every day in 2016 than in 1990. However, this progress has not been universal. Inequities in child mortality between high-income and low-income countries remain large. Reducing these inequities across countries and saving more children's lives by ending preventable child deaths are important priorities.

We also need to focus on the second decade of children's lives. A safe, healthy passage from adolescence into adulthood is the right of every child. To fulfil this right, families and societies need to ensure that adolescents and youth acquire the knowledge and skills required to lead productive and fulfilling lives. Calls for investment in children and young people have increased dramatically in recent years. More and more countries agree that policies, which help young people fulfil their potential, also drive economic development.

Challenges persist in both the education and skills sectors. We need to ensure that all children complete their primary schooling and go on to secondary school. Additional efforts are required to empower girls to believe that they are capable of doing everything boys can. The lack of improvement in the quality and outcomes of education is another concern.

The global youth unemployment rate stands at 13 per cent, which is three times higher than the figure for adults. This lack of job opportunities is one of the issues of greatest concern. Globalisation and technology are reshaping the lives of young people worldwide. 85 per cent of jobs that today's learners will be doing in 2030 do not exist now. There is an urgent need to redesign curricula for secondary, vocational and higher education to develop skills and competences that will meet the needs of the future. Our goal should be to create adaptable learners who are capable of reengineering their own skills and capacities in disrupted economies. Attention must also be paid to developing children and young people's human qualities and values, such as empathy, cooperation and integrity.

Political instability and conflict are leaving young people vulnerable to violence, disrupting their schooling and access to basic health services and, in many cases, inflicting psychological trauma. We must accelerate efforts to protect children and young people from violence, drug abuse, conflict and poverty, to enable them to lead more productive lives and contribute to society.

Sir Fazle Hasan Abed, KCMG
Founder and Chairperson

LETTER FROM THE EXECUTIVE DIRECTOR

There are more young people today than at any other time in human history. Children and young people make up almost 40% of the world's population, with specific needs and aspirations for the future, which poses both immense opportunities and challenges. While we as a global community have made significant progress in ensuring a better life for all, there is always more work to be done. One in five children, adolescents and youth is out of school. That is 263 million children and youth across the world.

Today's young people will be tomorrow's leaders - in our families, in our workplaces, in our communities. Over a third of the Sustainable Development Goal (SDG) targets highlight the role of young people and the importance of their empowerment, participation, and wellbeing. The SDGs highlight that young people are a driving force for development – however they need to be provided with the skills and opportunities needed to reach their potential. Therefore we at BRAC International have shifted our strategy to focus on ensuring children and youth have better opportunities.

We have invested in Early Childhood Development programmes in Tanzania, Uganda and Liberia. A dollar invested in early childhood development yields a seven-fold return in the future. Having a strong foundation from an early age leads to more productive citizens in the future.

We believe education is a universal right and no one, no matter the circumstance, should be left behind. 130 million girls between the age of 6 and 17 are out of school and 15 million girls of primary-school age will never enter school. We are building schools only for girls in Afghanistan and Pakistan, places where it is extremely difficult for them to go to school.

In Sub-Saharan Africa alone, 14.2% of the youth population is unemployed, representing massive untapped potential for growth. Everyone should be able to contribute and reap development dividends and our ELA programme ensures just that for our out-of-school adolescent girls. With specialised skills and entrepreneurial lessons, our programme enables them to unlock their potential and contribute to society. We give our girls access to microloans so they can start their own enterprises.

Our newly-launched Skills Development Programme in Nepal connects children and youth to apprenticeships and equips them with the skills needed to not only affect change in their own lives but also in the communities they are a part of.

Our extraordinary strides in the field of development mean that we are ready to provide a better, more equitable life for our children. As our future change-makers, children hold incredible potential for innovation. It is our responsibility to give them what they deserve. We cannot let their potential go unrealised.

Faruque Ahmed
Executive Director
BRAC International

MESSAGE FROM THE COUNTRY REPRESENTATIVE

In 2012, BRAC Philippines set a pioneering work of establishing Alternative Delivery Model of basic education in the provinces of the Autonomous Region of Muslim Mindanao (ARMM) in the Philippines. For the last five years, we established 2,108 learning centers in communities with no access to schools and were able to reach out to 65,990 learners from remote, poverty-stricken and conflict-affected communities.

With funding support from the Australian government through the Department of Foreign Affairs & Trade (DFAT) and in collaboration with Department of Education-ARMM (DepEd-ARMM), we instituted low cost, community managed, national curriculum aligned and government recognised learning centers for the underserved communities in the ARMM region.

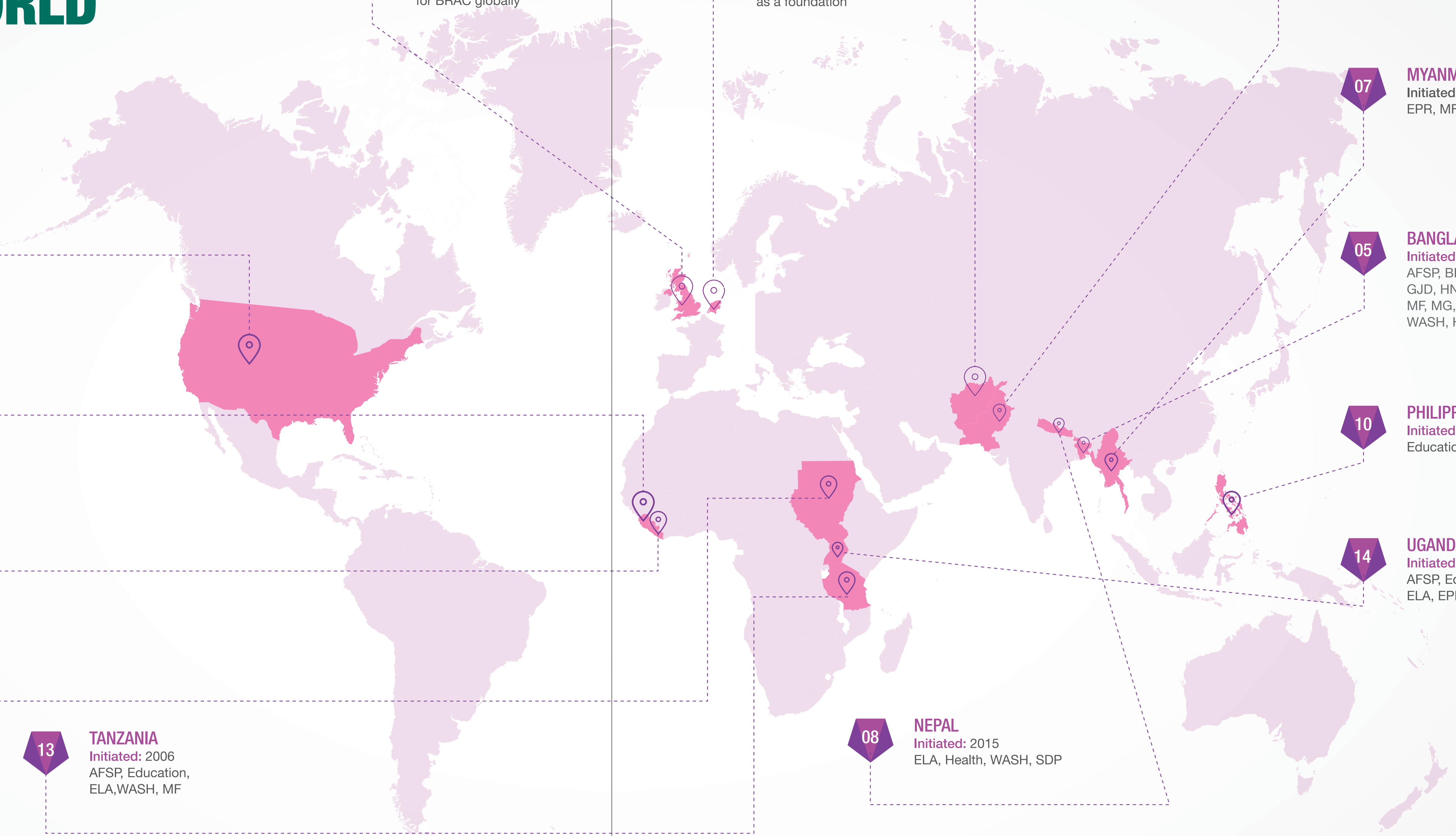
Findings from an independent longitudinal study of the Assessment, Curriculum and Technology Research Centre & the University of Melbourne in 2016 concluded that our learners kept pace with Department of Education peers and narrowed the baseline gaps in terms of proficiency in both literacy and mathematics. Compared to other schools, our centers also had smaller class sizes with improved classroom learning environment, were better at retaining students with increased attendance in class and have lesser gender disparity with provision of equal opportunities for both girls and boys. In addition, the strategy of using the mother tongue as medium instruction in our centers served as huge advantage for the students.

The popular adage, "it takes a village to raise a child," is not without basis. Our work in the education of children could not have succeeded without the hard work, perseverance and commitment of our staff and the unwavering support of our donors, government partners, local partner NGOs, parents and community leaders.

We enable children to do more than anyone can possibly think of.

Efren Lubuguin
Country Representative
BRAC in Philippines

BRAC ACROSS THE WORLD



01 USA
Initiated: 2007
An independent charity to raise profile and funds for BRAC globally

02 UK
Initiated: 2006
An independent charity to raise profile and funds for BRAC globally

03 NETHERLANDS
Initiated: 2009
Stichting BRAC International registered as a foundation

04 AFGHANISTAN
Initiated: 2002
AFSP, Education, CDP, Health, CCAP

05 BANGLADESH
Initiated: 1972
AFSP, BEP, CEP, DMCC, GJD, HNPP, HRLS, IDP, MF, MG, SDP, TUP, UDP, WASH, HCMP

06 LIBERIA
Initiated: 2008
AFSP, Education, ELA, Health, MF

07 MYANMAR
Initiated: 2013
EPR, MF

08 NEPAL
Initiated: 2015
ELA, Health, WASH, SDP

09 PAKISTAN
Initiated: 2007
Education, MF, Health, TUP

10 PHILIPPINES
Initiated: 2012
Education

11 SIERRA LEONE
Initiated: 2008
AFSP, ELA, EPR, Health, MF

12 SOUTH SUDAN
Initiated: 2007
Education, ELA, Health

13 TANZANIA
Initiated: 2006
AFSP, Education, ELA,WASH, MF

14 UGANDA
Initiated: 2006
AFSP, Education, TUP ELA, EPR, Health, MF

AFSP : Agriculture and Food Security Programme
BEP : BRAC Education Programme
CCAP : Citizens Charter Afghanistan Programme
CDP : Capacity Development Programme
CEP : Community Empowerment Programme
DMCC : Disaster, Management and Climate Change
ELA : Empowerment and Livelihood for Adolescents
EPR : Emergency Preparedness and Response
GJD : Gender Justice and Diversity
HNPP : Health, Nutrition and Population Programme
HRLS : Human Rights and Legal Aid Services
HCMP : Humanitarian Crisis Management Programme
IDP : Integrated Development Programme
MF : Microfinance
MG : Migration
SDP : Skills Development Programme
TUP : Targeting the Ultra Poor
UDP : Urban Development Programme
WASH : Water, Sanitation and Hygiene

EDUCATION

Among the 17 regions in the Philippines, Autonomous Region in Muslim Mindanao (ARMM) has the lowest cohort survival rate (39.6%) results which are far below the national average results of 80.6 in SY 2013-2014 and with high drop-out rate of 14 % in basic education.

We started our education programme in 2012 in the ARMM to respond to issues on poor access to education, a large number of out-of-school children, low participation rate, high drop-out rate and low academic achievements.

WHAT WE DO

The learning centers were established in school less villages and where children have limited or no access to government schools in order to improve access and provide quality education among children in these villages.

During this transition year, we supported the Department of Education's (DepEd) in ARMM to maintain quality education in the learning centers through regular supervision and monthly refresher trainings of teachers.

We follow the DepEd's Kindergarten to Grade 6 curriculum for both kindergarten and elementary education. The curriculum contents and instructional materials are contextualized to suit the social-cultural character of the ARMM children who are predominantly Muslims.

We are operating in the five provinces of ARMM for five school years and have been granted an extension for the school year 2017-2018 to support the process of transition from BRAC to DepEd system including the Enhanced Basic Education Information System (EBEIS) and the Learners Information System (LIS).

HIGHLIGHTS

Operating 423 BRAC learning centers in the five provinces of ARMM.

9,570 disadvantaged children are benefitting the alternative mode of education.

423 ADM–teachers receive monthly intensive training course on different subject field.

A total of 21,640 learners successfully transitioned and mainstreamed to DeEd system.

2,961 PTCA members actively supports the conduct of monthly meetings at the community level.

A total of 730 elementary learning centers in 489 villages and 1,378 preschool learning centers in 704 villages were established.

BONDING IN THE CLASSROOM

I am Jonalyn Saliling, 11-years old and a Grade 5 learner at Bubuguiron BRAC Learning Center, in the remote mountains of Tamar District, Talayan, Maguindanao. Unlike most of my classmates, I used to be very shy when I started classes five years ago. I am the tallest in the class. I felt shy because I looked older. My confidence was low, and I did not do very well in class.

In the last two years however, I changed a lot. I learned a lot and I gained the confidence I needed. My studies weren't hampered with my low self-esteem anymore. I expressed my ideas better and I performed better in class. The activities at school helped me bond with my classmates and made me feel that I was not different. We became a family. We studied together, we cleaned the classroom together, and we took care of each other when we got home. The children I was shy to mingle with before now became my friends and an important part of my life. We became even more inseparable when we took the Early Language Literacy and Numeracy Assessment (ELLNA) in 2017. The preparations we took for the exams led us to study even harder together. Sometimes my friends would come over to our house so that we could study together. Those were fond memories to reminisce. When we learned that we topped the ELLNA, our parents rejoiced and even the principal of the DepEd school was proud of our success.

If we were not trained by our learning facilitator, the ELLNA results would not

have been the same and my classmates and I would not have become a family. Credit to our success goes to our learning facilitator and her guiding Project Organizer. They never got tired of teaching us even if we were difficult to discipline sometimes. They always motivated us at the beginning of class and set goals before anything else. It always helped us that our learning facilitator believed in our abilities. In return we become attentive during the conduct of lessons and it makes learning easier. I think getting high scores in exams is not that much important as the lessons learned in school prepared us for the future. I have already started preparing for the future. It started here in BRAC Learning Center.

PAY IT FORWARD

When my students of Inoma Grade 5 BRAC Learning Center in Calanugas, Lanao del Sur were preparing for the Language Assessment for Primary Grades (LAPG) examination in 2016, we were hoping for the entire class to pass the test.

I am learning facilitator Noraina Macatoon and my dreams was for my learners to top the LAPG examination. Given the children's short attention span and other distractions at home, it was a difficult goal to achieve. I had to improvise my own strategies to improve the process of learning for my students. I had to make my own visual aids to enhance memorisation techniques and increase comprehension.

It wasn't just me going out of my way. The learners had to make sacrifices during the preparation for the exams. One of my students, Norjannah Abra, had to put in an extra hour after her regular classes to fully understand her lessons. Without their eagerness to learn and pass the tests it would not have been possible.

Despite limited resources, we tried our best and we were rewarded. In 2016, then Grade 3 Inoma BLC topped the national examination for LAPG with an average score of 99.26%. Imagine how happy we were! We felt all our efforts and sacrifices have paid off!

As important as learning is, I felt it was also important to teach good habits for my students. My students love to

read. They like to incorporate lessons in games and I think they acquired most of what they learned through play-inspired activities. I encouraged them to be themselves and be proud of who they were. Learners who are encouraged to be themselves in the classroom through fun activities are more confident and expressive of their ideas.

Every teacher has his or her own strategy to get the attention of students which facilitates comprehension of lessons taught. Every student is different and requires different means to get the best out of them. I encourage other teachers to be more mindful of their students' needs during examinations and not to pressure them into achieving high scores.

LONG STRETCH TO EDUCATION

I envision myself as an engineer as I walk an hour every day to my school, the Talao BRAC Learning Center in Piagapo, Lanao del Sur. It is the closest school to my home so I walk four kilometers to and fro every day. There is no concrete road, only a path that I have been taking ever since I started grade 1. My dream of becoming an engineer someday makes the long walk to school seem like a piece of cake.

At school when I arrive late my learning facilitator would let me in and update me on the lessons I missed while I was on my way. I appreciate my learning facilitator being our second mother and making our classes really fun. It helps a lot that my classmates and I grew up to become like siblings since Grade 1. We all help each other in school because we feel that this is one rare opportunity to lift our poor village.

My mother thinks the same way as I do. Every day she wakes up early to help me prepare for school. She tells me every time, “this is my responsibility, to support you in your studies even if you have to go on foot. So that when I die, you will not be deprived because I did not send you to school.”

Walking to school has many dangers. Sometimes I come across snakes and wild boars. But having my mother, teacher, and classmates support me to reach for my dreams, I know I can walk even farther.

– Samsodin Banari, Grade 5 Learner from Talao BRAC Learning Center, Piagapo, Lanao del Sur.

GOVERNANCE AND MANAGEMENT

BRAC INTERNATIONAL

BRAC International is registered as Stichting BRAC International in the Netherlands.

CORPORATE 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

Stichting BRAC International has a ten (10) member 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 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.

The current members of the Supervisory Board are:

Chairperson
Sir Fazle Hasan Abed, KCMG

Members
Ms. Sylvia Borren
Dr. Muhammad Musa
Ms. Parveen Mahmud
Dr. Ahmad Mastaqur Raza Chowdhury
Dr. Debapriya Bhattacharya
Ms. Shabana Azmi
Mr. Shafiqul Hassan
Ms. Irene Khan
Dr. Fawzia Rasheed

MANAGEMENT BOARD

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 Management Board is appointed by Supervisory Board and their performance is reviewed annually. The Management Board consists of the following members:

Mr. Faruque Ahmed, Executive Director
Mr. Saif Md Imran Siddique, Director
Mr. Shameran Abed, Director
Ms. Lamia Rashid, Director

The gender diversity in the management board is 75/25. The Foundation is trying to bring in more female participation into its Management board. The management board meets on a weekly basis.

BRAC INTERNATIONAL HOLDINGS BV

BRAC International Holdings BV is a wholly owned subsidiary of Stichting BRAC International and was incorporated in 2010. BRAC International’s microfinance programmes, social enterprises and investment companies are consolidated under this wing. The social programmes currently supporting the enterprises include seed production and training centres.

BRAC International Holdings BV has the role to consolidate the financial results of all country operations in six countries. The consolidated financial statements include the financial data of the stand-alone parent organisation, its group companies and other legal entities over which the foundation has control.

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

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Sir Fazle Hasan Abed KCMG, Chair
Dr. Muhammad Musa, Member
Ms. Parveen Mahmud, Member
Ms. Sylvia Borren, Member

MANAGEMENT BOARD

The Management Board consists of the following members:

Managing Director
Mr. Faruque Ahmed

Director
Mr. Hans Eskes

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.

GROUP FINANCE AND AUDIT COMMITTEE

Composition of the present finance and audit committee is as follows:

Ms. Parveen Mahmud, Chair
Dr Muhammad Musa, Member
Ms. Sylvia Borren, Member
Mr. Faruque Ahmed, Member
Mr. Hans Eskes, Member
Mr. Saif Md Imran Siddique, Secretary of the Committee

The primary function of the finance and audit committee is to assist the governing board in fulfilling its responsibilities on the:

- Financial reporting and budgeting processes
- System of internal controls and risk assessment
- Compliance with legal and regulatory requirements
- Qualifications, independence, and performance of the external auditors
- Qualifications, independence, and performance of the internal audit function

LOCAL BOARDS

Each country entity has a local board. We pursue microfinance and development activities through separate entities in countries where it is required. The local board members are appointed by Stichting BRAC International's board. The business of the local entities is managed by these local boards. Further details of the roles of the local board are available in the respective incorporation documents of these entities.

ADVISORY COUNCIL

In 2015, BI decided to form advisory councils to strengthen governance, support advocacy at the national level and enhance credibility.

The council members, who are country nationals, provide the country leadership with advice and support on standards and policies, and the development and implementation of programmes. They advise on key external developments and trends nationally, and promote BRAC's mission through effective and strategic working relationships with key stakeholders and civil society partners in the countries. They also support information sharing and relevant advocacy on behalf of BRAC.

ACCOUNTABILITY AND TRANSPARENCY

The internal audit department conducts periodical audits at all our cost centres on a sample basis. Audits take place at least once a year and twice or more in locations and on programmes where a closer watch is warranted. In addition, special investigations are conducted in case of fraud or irregularities that may be detected. A 'whistle blower' policy is in place and HR takes actions as and when required.

External audit of Stichting BRAC International, BRAC International Holdings BV and all of our legal entities are undertaken annually. Financial transparency is ensured by BRAC International's finance and accounts division, which prepares financial statements following the International Financial Reporting Standards and the laws of relevant countries.

The summary of all audits and investigations are submitted to the audit and finance committee on a half yearly basis.

BRAC IN PHILIPPINES

GOVERNANCE

Local Board Members

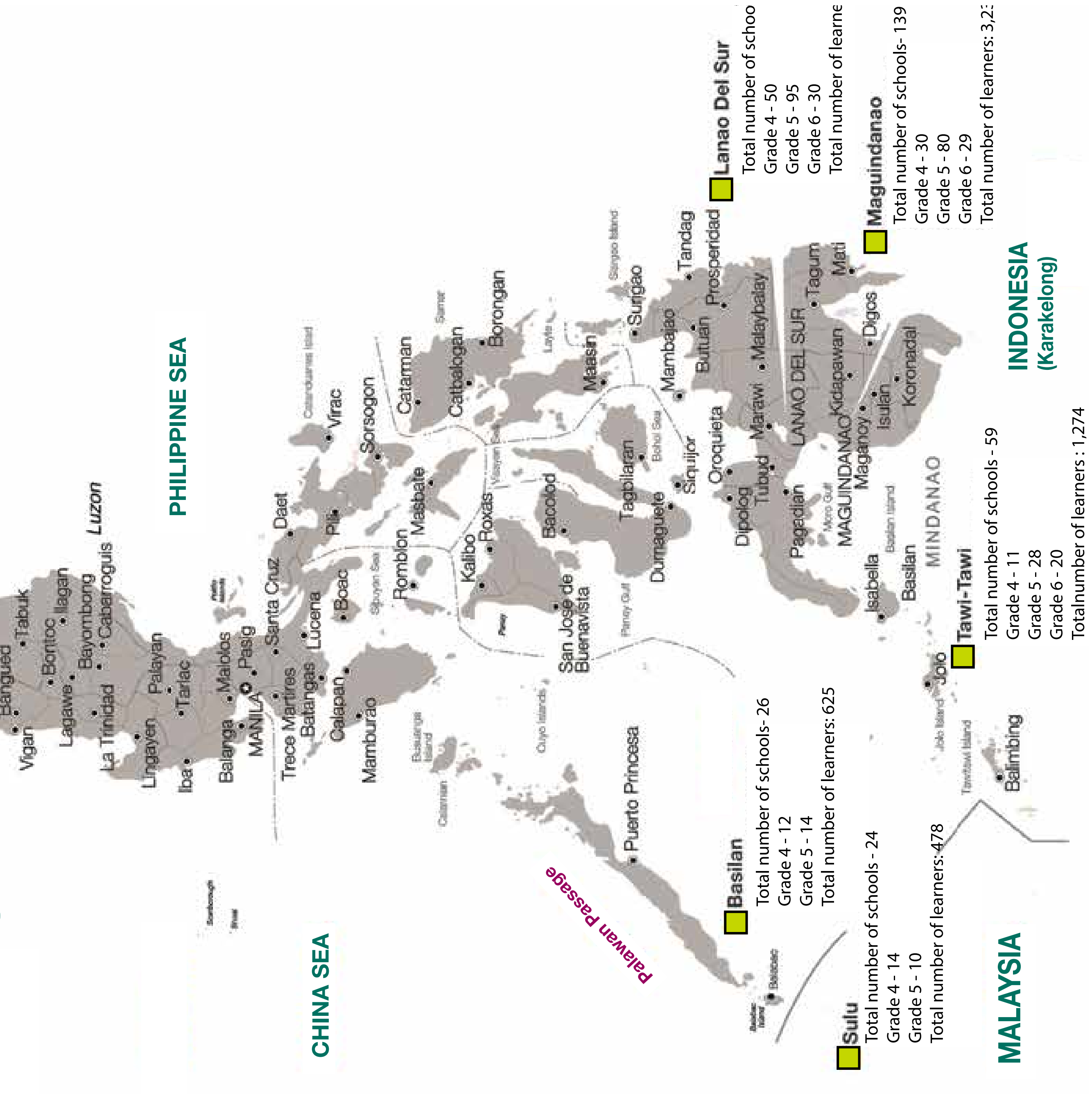
Faruque Ahmed
S N Kairy
Dr Safiqul Islam

MANAGEMENT

Efren V. Lubuguin | Country Representative
Md Ibrahim Khalil | Program Manager, Education
Md Humayun Kabir | Head of Accounts
Dr Norma Gomez | Head of MIS, Monitoring and Research
Jovelyn Alferez | Senior Manager, Planning and Communications
Christopher Gamao | Manager, Admin and Human Resource
Janifa Bangcola | Deputy Manager, Curriculum and Training
Nadjera Macabago I Senior Audit Officer

DEVELOPMENT PARTNERS

BRAC IN PHILIPPINES



Branch Programmes

Education

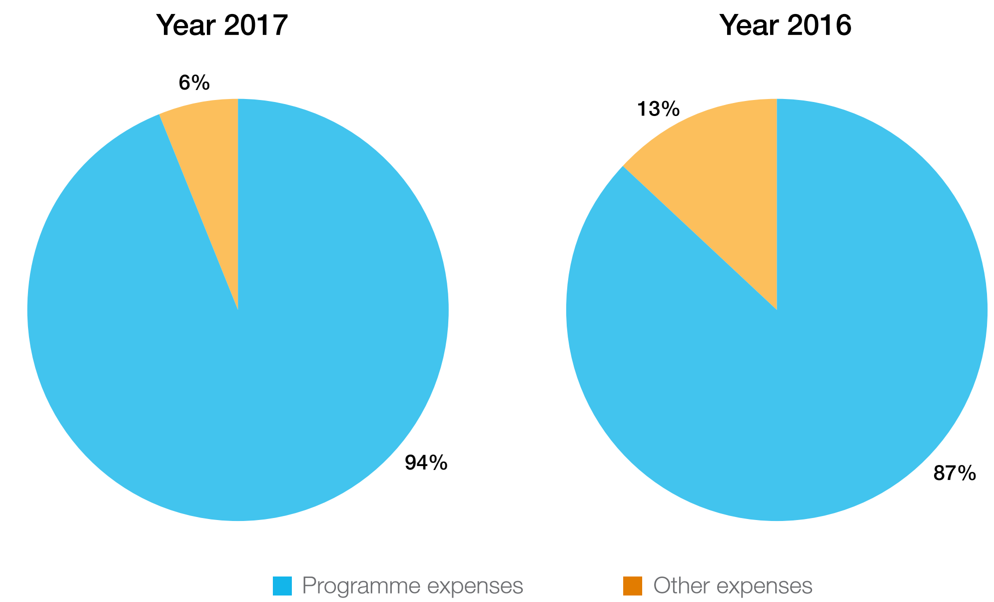
FINANCIALS

FINANCIAL HIGHLIGHTS

BRAC Philippines completed its 6th year of operation in 2017. Grant Income was USD 3,096,102 against USD 5,105,196 in 2016. Out of total expenses, project expenses was USD 2,910,268 (USD 4,444,564 in 2016) and 94% (87% in 2016) of the total cost.

PROGRAMME COST BY NATURE OF EXPENSES

Expenses	2017		2016	
	USD	%	USD	%
Programme Expenses	2,910,268	94%	4,444,564	87%
Other Expenses	189,482	6%	662,373	13%
Total	**3,099,750**		**5,106,937**	



PERFORMANCE REVIEW

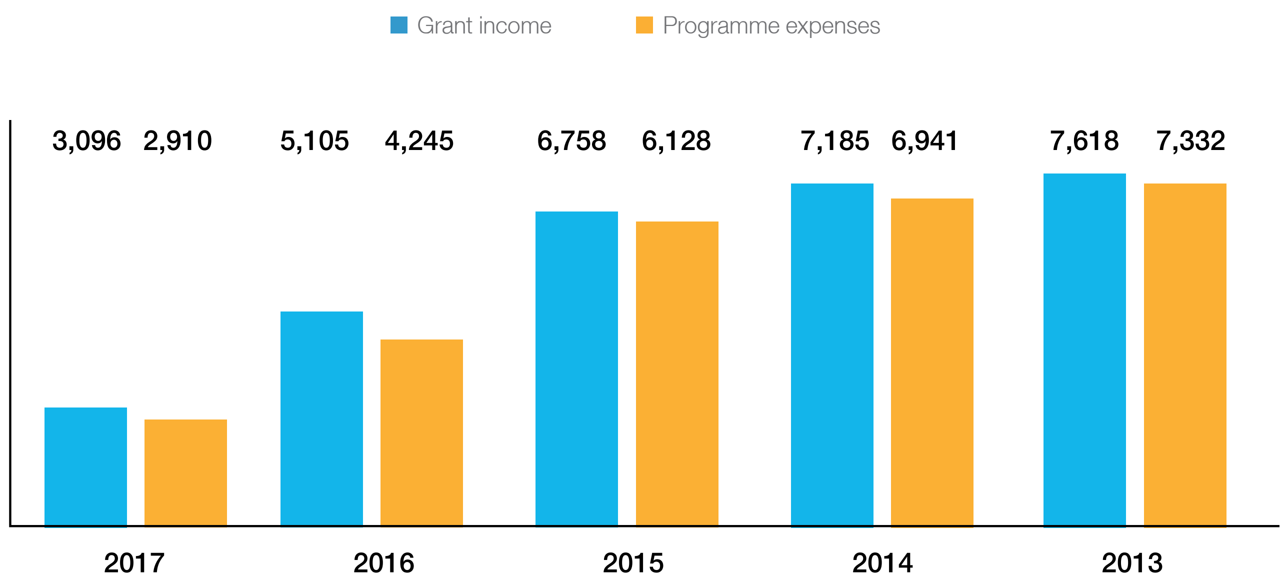
Income Statement	2017	2016	2015	2014	2013
	USD	USD	USD	USD	USD
Grant Income	3,096,102	5,105,196	6,758,161	7,185,235	7,618,483
Other Income	3,648	1,741	2,771	4,932	3,680
Programme Expenses	2,910,268	4,244,564	6,128,495	6,940,887	7,332,406
Other Expenses	189,482	862,373	632,437	249,280	289,757

FINANCIAL POSITION

Balance sheet	2017	2016	2015	2014	2013
	USD	USD	USD	USD	USD
Cash at Bank	1,760,844	5,088,966	6,628,206	8,466,983	10,147,817

ANNUAL INCOME AND EXPENSES

in Thousands USD



STICHTING BRAC INTERNATIONAL, INC.

(Incorporated in Netherlands)
PHILIPPINES BRANCH
(A Nonstock, Nonprofit Organization)

FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Stichting BRAC International, Inc. - Philippine Branch
No. 496 South Street, DBP Village
Ma-a, Davao City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stichting BRAC International, Inc. Philippine Branch (the "Branch"), which comprise the statements of assets and liabilities as at December 31, 2017 and 2016, and the statements of income and expenses and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statements of assets and liabilities of the Branch as at December 31, 2017 and 2016, and its statements of income and expenses and its statements of cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which describes that the Grant Agreement of the Branch with the Department of Foreign Affairs and Trade (DFAT) - Australia Aid Program from which grants of the Branch is only sourced, will be ending on June 30, 2018. This condition indicates that a material uncertainty exists that may cast significant doubt on the Branch ability to continue as a going concern.

As of the date of the audit report the Branch is extending its efforts in looking for opportunities to get new donors. The Branch also has ongoing negotiations with DFAT for the extension by another one year from July 2018 to use the estimated remaining funds of P24 million after the expiration of the Agreement on June 30, 2018.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 14 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

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Partner
CPA License No. 108798
SEC Accreditation No. 1574-A, Group A, valid until August 11, 2019
Tax Identification No. 225-454-652
BIR Accreditation No. 08-001987-35-2015
Issued December 28, 2015; valid until December 27, 2018
PTR No. 6615159MD
Issued January 3, 2017 at Makati City

March 8, 2018
Makati City, Metro Manila

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

STATEMENTS OF ASSET AND LIABILITIES

		December 31	
	Note	**2017**	2016
ASSETS			
Current Assets			
Cash	*4, 5*	**P87,906,618**	P253,481,404
Other current assets	*6*	**822,340**	2,716,853
Total Current Assets		**88,728,958**	256,198,257
Noncurrent Assets			
Property and equipment - net	*7*	**1,518,855**	3,889,130
Refundable deposits	*4, 13*	**179,944**	355,850
Total Noncurrent Assets		**1,698,799**	4,244,980
		P90,427,757	P260,443,237
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	*4, 8*	**P6,153,687**	P7,118,495
Deferred grant income	*9*	**84,274,070**	253,324,742
Total Current Liabilities		**P90,427,757**	P260,443,237

See Notes to the Financial Statements.

Mohammad Humayun Kabir,
Head of Finance
Stichting BRAC International
Philippines Branch

Efren V Lubuguin,
Country Representative
Stichting BRAC International
Philippines Branch

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)

STATEMENTS OF INCOME AND EXPENSES

		Years Ended December 31	
	Note	**2017**	2016
INCOME			
Grants	*9*	**P154,566,721**	P254,289,788
Interest income	*5*	**182,109**	86,694
		154,748,830	254,376,482
PROJECT EXPENSES			
Learning facilitators allowances		**57,135,099**	75,913,583
Partner non-government organizations (NGO) employee benefits		**17,324,437**	27,168,371
Salaries and employee benefits		**16,011,687**	21,823,068
School supplies		**9,280,426**	27,096,639
Training and orientation		**8,748,854**	13,884,322
Transportation and travel		**8,014,478**	11,483,148
Rent	*13*	**7,378,331**	10,964,618
Evaluation activity		**3,177,812**	4,432,937
Office utilities		**2,220,746**	4,277,929
Production and development		**308,115**	-
Taxes and licenses		**12,860**	22,307
Others	*10*	**14,451,408**	19,333,742
		144,064,253	216,400,664
OTHER NONCASH EXPENSES (INCOME)			
Depreciation	*7*	**2,328,168**	2,793,204
Foreign exchange gains	*4*	**(1,103,076)**	(7,772,173)
		1,225,092	(4,978,969)
GENERAL AND ADMINISTRATIVE EXPENSES	*11*	**9,459,485**	42,954,787
		154,748,830	254,376,482
EXCESS OF INCOME OVER EXPENSES		**P -**	P -

See Notes to the Financial Statements.

Mohammad Humayun Kabir,
Head of Finance
Stichting BRAC International
Philippines Branch

Efren V Lubuguin,
Country Representative
Stichting BRAC International
Philippines Branch

STATEMENTS OF CASH FLOWS

	Note	Year Ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net excess of income over expenses		**P -**	P -
Adjustments for:			
Depreciation	7	**2,328,168**	2,793,204
Loss on disposal of property and equipment	7	**42,107**	-
Interest income	5	**(182,109)**	(86,694)
Excess of income over expenses before working capital changes		**2,188,166**	2,706,510
Decrease in:			
Other current assets	6	**1,894,513**	39,053
Refundable deposits		**175,906**	20,000
Increase (decrease) in:			
Accounts payable and accrued expenses		**(964,808)**	635,133
Deferred grant income	9	**(169,050,672)**	(62,658,462)
Cash used in operations		**(165,756,895)**	(59,257,766)
Interest received		**182,109**	86,694
Net cash used in operating activities/Decrease in cash		**(165,574,786)**	(59,171,072)
CASH AT BEGINNING OF YEAR		253,481,404	312,652,476
CASH AT END OF YEAR	5	P87,906,618	P253,481,404

See Notes to the Financial Statements.

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH
(A Nonstock, Nonprofit Organization)

NOTES TO THE FINANCIAL STATEMENTS

1. **Branch Information**

Stichting BRAC International, Inc. (the “Head Office”), a foundation registered under the laws of The Netherlands, was granted by the Philippine Securities and Exchange Commission (SEC) a license to transact business in the Philippines (the “Branch”) on January 25, 2012 to manage the implementation of education assistance projects in Mindanao as part of the then Australian Agency for International Development (AusAID) program, which subsequently changed its name to Department of Foreign Affairs and Trade (DFAT) - Australian Aid Program. The Branch implements the “Alternative Delivery Model (ADM) Project” of the Basic Education Assistance for Mindanao in the Autonomous Region in Muslim Mindanao (BEAM-ARMM) with an objective of improving access to quality pre-school and elementary education, particularly in communities without access to or which have difficulty in accessing government schools.

The Branch’s management and implementation of the ADM Project of the BEAM-ARMM has the following components:

Component 1: Curriculum, Materials and Assessment Development

This component involves reviewing the Department of Education’s (DepEd) standard curriculum for both pre-school and the six-year elementary education to develop a mechanism and instructional plan for enhanced delivery, identification of appropriate teaching and learning materials for both pre-school and elementary education and the mechanism and tools to monitor and measure student learning and inform how the program delivery could be improved.

Component 2: Community Learning Center Operations

This component involves the establishment and operation of Community Learning Centers (CLCs) in identified priority barangays (villages). The CLCs implement the curriculum for both pre-school and elementary education targeting primarily the out-of-school children in barangays without schools and in areas with large number of out-of-school children.

Component 3: Capacity Building

This component develops the capacity of key stakeholders to manage and sustain the implementation of an alternative delivery model for basic education. The key activities under this component include core resource group training in Bangladesh for senior managers of DepEd Central and ARMM, trainings and workshops for specialized trainers, curriculum writers, project officers and coordinators, learning facilitators and specialized training courses for educators on curriculum materials development, assessment and instructional supervision.

Component 4: Project Management, Monitoring and Evaluation

This component includes the establishment, staffing and operations of the project management unit and provincial offices. In addition, this component performs the general coordination and supervision of CLCs, monitoring and evaluation, policy support and coordination for scale-up to other regions and conducts research and impact evaluations and policy advocacies.

As of the date of the approval of the financial statements, the Branch is extending its efforts in looking for opportunities of new donors as its current Grant Agreement with DFAT will terminate on June 30, 2018 which may cast doubt on the continued existence of the Branch. The Branch also has ongoing negotiations with DFAT for extension of another one year from July 2018 to use the estimated remaining funds of P24 million after the expiration of the Agreement on June 30, 2018. Management will continue its efforts to source for additional funding.

The Branch, in its letter to International Tax Affairs Division of the Bureau of International Revenue dated May 10, 2013, has requested for confirmation of the tax exemption privileges of the BEAM-ARMM Program pursuant to Section 30 of the Tax Reform Act of 1997 (R.A 8424). As at December 31, 2017, the Branch has not received confirmation of the said tax exemption.

The registered office of the Branch, which is also its principal place of business, is located at No. 496 South Street, DBP Village, Ma-a, Davao City.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS is based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consists of PFRS, Philippine Accounting Standards, and Philippine Interpretations.

The accompanying financial statements were approved and authorized for issue by the Board of Directors on March 8, 2018.

Basis of Measurement
The Branch's financial statements have been prepared under the historical cost basis of accounting.

Functional and Presentation Currency
The financial statements are presented in Philippine peso, which is the Branch's functional currency. All financial information expressed in Philippine peso has been rounded off to the nearest peso, except when otherwise indicated.

Use of Estimates and Judgments
The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Branch's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Branch, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the cost of implementing the project.

Operating Lease - Branch as Lessee
The Branch has entered into lease agreements as lessee. The Branch determined that all significant risks and rewards of ownership of the properties leased from third parties are retained by the lessors under operating lease agreements.

Rent expense charged to operations amounted to P7,378,331 and P10,964,618 in 2017 and 2016, respectively (see Note 13).

Estimates and Assumptions
The key estimates and assumptions used in the financial statements are based on management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from such estimates.

Estimating Useful Lives of Property and Equipment
The Branch estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use or the duration of the ADM Project whichever is shorter. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

As at December 31, 2017 and 2016, the property and equipment, net of depreciation amounted to P1,518,855 and P3,889,130, respectively (see Note 7).

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Financial Instruments
Date of Recognition. The Branch recognizes a financial asset or financial liability in the statements of assets and liabilities when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, include transaction costs.

The Branch classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Branch classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired and financial liabilities are incurred whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Branch has no AFS financial assets, HTM investments and financial assets and liabilities at FVPL.

Financial Assets
Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of “Interest income” account in the statements of income and expenses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of “Interest income” account in the statements of income and expenses. Gains or losses are recognized in profit or loss when loans and receivables are derecognized and impaired.

Cash represents cash in bank and is stated at its face value, and earns interest at the respective bank deposit rates.

The Branch's cash and refundable deposits as at December 31, 2017 and 2016 are classified as loans and receivables.

Financial Liabilities
Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial recognition, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Branch's accounts payable and accrued expenses (excluding statutory liabilities to government agencies) are classified under this category.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset expired;
- the Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Branch has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from a financial asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Branch's continuing involvement in the financial asset.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Branch could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of assets and liabilities if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented on a gross basis in the statements of assets and liabilities.

Impairment of Financial Assets

The Branch assesses at each reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Branch first assesses whether an impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Branch includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and

the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the year is recognized in profit or loss. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Property and Equipment

Items of property and equipment are initially measured at cost. After initial recognition, all items of property and equipment are measured at cost less accumulated depreciation, and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statements of income and expenses as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation is recognized in the statements of income and expenses on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, or the remaining term of the ADM Project, whichever is shorter.

The estimated useful life of each item of property and equipment is as follows:

	Number of Years
Office furniture and equipment	3 - 5
Transportation equipment	5

If there is an indication that there has been a significant change in the depreciation method, useful life or residual value of an asset, the depreciation of that asset is reviewed and adjusted prospectively if appropriate.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized on a net basis in the statements of income and expenses.

Impairment of Non-financial Assets

The carrying amounts of the Branch's nonfinancial assets such as property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

An impairment loss is recognized in the statements of income and expenses whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use.

The fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of the useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statements of income and expenses.

Recognition of Grants
Grants received from Commonwealth of Australia, as represented by DFAT are initially recognized as deferred income and are then recognized as income to the extent of the expenses incurred for the year as set in the conditions associated with the grant. Assets acquired thru the grant are also recognized as deferred income and are recognized as income on a systematic basis over the useful life of the asset or duration of the ADM Project whichever is shorter.

Interest Income
Interest income, presented net of applicable tax withheld by the banks, is recognized when earned.

Expense Recognition
Costs and expenses are recognized upon receipt of goods, utilization of services or at the date these are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Operating Lease
Leases which do not transfer to the Branch substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of income and expenses on a straight-line basis over the lease term unless other systematic basis is more representative of the time pattern of the Branch's benefit.

Foreign Currency Transactions
Transactions denominated in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in Philippine peso using the exchange rate prevailing at the reporting date.

Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded and translated at reporting date are recognized in the statements of income and expenses in the year in which they arise.

Provisions
Provisions are recognized when the Branch has a legal or constructive obligation as a result of a past events, it is probable that an outflow of economic benefits will be required to settle the obligation and reliable estimate of the amount can be made.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Branch's statements of assets and liabilities at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH
(A Nonstock, Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS

New or Revised Standards, Amendments to Standards and Interpretations
Adopted as of January 1, 2017
A number of new or revised standards, amendments to standards and interpretation are effective as of January 1, 2017 and are required to be adopted by the Branch. While these have been adopted as of January 1, 2017, none of these have a significant impact on the Branch's financial statements.

To be Adopted in the Future
A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017. These will be adopted by the Branch as these become effective. None of these are expected to have a significant impact on the Branch's financial statements.

4. Financial Risk Management

Objectives and Policies
The Branch has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing such risks, and the Branch's management of capital. Further quantitative disclosures are included throughout the notes to the financial statements.

The main purpose of the Branch's dealings in financial instruments is to fund its operations and capital expenditures.

The Governing Body of the Head Office of the Branch has overall responsibility for the establishment and oversight of the Branch's risk management framework. The Governing Body has established the Audit Committee, which is responsible for developing and monitoring the Branch's risk management policies.

The Audit committee identifies all issues affecting the operations of the Branch and reports regularly to the Governing Body on its activities. The Branch's risk management policies are established to identify and analyze the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Branch's activities.

Mitigating strategies and procedures are devised to address the risks that inevitably occur so as not to affect the Branch's operations and impact forecasted results.

The Branch, through its training on and management of standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Country Representative performs oversight over financial management functions, specifically in the areas of managing credit, market and other risks of the Branch. The Country Representative directly interfaces with the internal audit function, which undertakes reviews of risk management controls and procedures and ensures the integrity of internal control activities which affect the financial management system of the Branch.

Credit Risk

The results of procedures performed by the Country Representative are reported to the Audit Committee. The Country Representative reviews and institutes policies for managing each of the risks and they are summarized below.

The maximum exposure to credit risk for the Branch's financial assets as at December 31 is presented below:

	Note	**2017**	2016
Cash in banks	*5*	**P87,818,846**	P253,329,759
Refundable deposits	*13*	**179,944**	355,850
		P87,998,790	P253,685,609

The aging of financial assets as at December 31, are as follows:

	2017						
	Neither Past	**Past Due but not Impaired**				**Past**	
	Due nor	**<30**	**31 - 60**	**61 - 90**	**90**	**Due and**	
	Impaired	**Days**	**Days**	**Days**	**Days**	**Impaired**	**Total**
Cash in banks	**P87,818,846**	**P -**	**P -**	**P -**	**P -**	**P -**	**P87,818,846**
Refundable deposit	**179,944**	**-**	**-**	**-**	**-**	**-**	**179,944**
	P87,998,790	**P -**	**P -**	**P -**	**P -**	**P -**	**P87,998,790**

	2016						
	Neither Past	Past Due but not Impaired				Past	
	Due nor	<30	31 - 60	61 - 90	90	Due and	
	Impaired	Days	Days	Days	Days	Impaired	Total
Cash in banks	P253,329,759	P -	P -	P -	P -	P -	P253,329,759
Refundable deposit	355,850	-	-	-	-	-	355,850
	P253,685,609	P -	P -	P -	P -	P -	P253,685,609

Below is the classification of the Branch's financial assets that are neither past-due nor impaired:

2017	**High Grade**	**Standard Grade**	**Total**
Cash in banks	**P87,818,846**	**P -**	**P87,818,846**
Refundable deposits	**179,944**	**-**	**179,944**
	P87,998,790	**P -**	**P87,998,790**

2016	High Grade	Standard Grade	Tota
Cash in banks	P253,329,759	P -	P253,329,759
Refundable deposits	355,850	-	355,850
	P253,685,609	P -	P253,685,609

The credit qualities of financial assets were determined as follows:

- Cash in banks is considered high grade as these pertains to deposits in reputable banks.
- Refundable deposits are considered high grade as these pertain to deposits that are covered by the lease agreements.

The Branch's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Branch for the years ended December 31, 2017 and

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH
(A Nonstock, Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS

2016, except for the concentration risk relating to its cash in banks. The Branch's management performs an assessment of its external environment, including the related risks and limitations, and selects the Branch's depository banks based on factors such as reputation in the market place, and compliance with regulations, among others.

Liquidity Risk
Liquidity risk pertains to the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Branch's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed at least possible cost.

The The table below summarizes the maturity profile of the Branch's financial liabilities based on contractual undiscounted payments used for liquidity management:

	As at December 31, 2017			
	Carrying Amount	**Contractual Cash Flow**	**1 Year or Less**	**1 Year - 5 Years**
Financial Liabilities*				
Accounts payable and accrued expenses	**P5,932,590**	**P5,932,590**	**P5,932,590**	**P -**

Excluding statutory payables.

	As at December 31, 2016			
	Carrying Amount	Contractual Cash Flow	1 Year or Less	1 Year - 5 Years
Financial Liabilities*				
Accounts payable and accrued expenses	P6,866,274	P6,866,274	P6,866,274	P -

Excluding statutory payables.

Market Risk
Market risk is the risk that changes in foreign exchange rates which affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign Currency Risk
The Branch is exposed to foreign currency risk on monetary asset and liability held in currencies other than the Philippine peso, the Branch ensures that its exposure is kept to an acceptable level by maintaining regular savings deposits in US dollar and buying foreign currencies at spot rates where necessary to address short-term imbalances.

The Branch's foreign currency-denominated assets and liabilities as at December 31 are as follows:

2017	**Current Assets**	**Current Liabilities**	**Net Foreign Currency Exposure**	**Exchange Rate**	**PHP Equivalent**
Currency					
USD	**1,408,124**	**24,586**	**1,383,538**	**49.92**	**69,066,201**

2016	Current Assets	Current Liabilities	Net Foreign Currency Exposure	Exchange Rate	PHP Equivalent
Currency					
USD	3,090,813	73,318	3,017,495	49.72	P150,029,851
					P150,029,851

The Branch recognized foreign exchange gains of P1,103,076 and P7,772,173 in 2017 and 2016, respectively.

Sensitivity Analysis
A 0.4% strengthening of the Philippine peso against USD as at December 31, 2017 would have decreased foreign exchange gains by P277,821. The strengthening of the rates is reasonably possibly to have happened based on management assessment. A 6% strengthening of the Philippine peso against USD as at December 31, 2016 would have increased foreign exchange gains by P8,480,225.

A weakening of the Philippine peso against the USD by the same percentage as above as at December 31, 2017 and 2016 would have had equal but opposite effect on the basis that all other variables remain constant.

Fair Values
The carrying value of cash approximates its fair value, since it can be readily withdrawn and used for operations at any time. The fair value of the refundable deposits approximates its carrying amount since it can be reasonably be collected on their due dates.

5. Cash

This account consists of:

	Note	**2017**	2016
Cash on hand		**P87,772**	P151,645
Cash in banks	*4*	**87,818,846**	253,329,759
		P87,906,618	P253,481,404

Cash in banks earn annual interest at the respective bank deposit rates.

Interest income earned from cash in banks in 2017 and 2016 amounted to P182,109 and P86,694, respectively.

6. Other Current Assets

This account consists of:

	2017	2016
Advances to non-government organizations (NGO) partners and Branch employees	**P822,340**	P2,652,521
Other assets	**-**	64,332
	P822,340	P2,716,853

Advances to NGO partners and Branch employees represent advances given by the Branch which exceeded amounts liquidated as of December 31, 2017. These are expected to be applied against expenses for the next quarter.

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NOTES TO THE FINANCIAL STATEMENTS

7. Property and Equipment

The movements and balances of this account are as follows:

	Furniture and Equipment	**Office Transportation Equipment**	**Total**
Cost			
January 1, 2017	P4,930,028	P10,074,800	P15,004,828
Disposals	(348,590)	-	(348,590)
December 31, 2017	**4,581,438**	**10,074,800**	**14,656,238**
Accumulated Depreciation			
January 1, 2016	2,241,141	6,081,353	8,322,494
Depreciation	778,243	2,014,961	2,793,204
December 31, 2016	3,019,384	8,096,314	11,115,698
Depreciation	771,632	1,556,536	2,328,168
Disposals	(306,483)	-	(306,483)
December 31, 2017	**3,484,533**	**9,652,850**	**13,137,383**
Carrying Amount			
December 31, 2016	P1,910,644	P1,978,840	P3,889,130
December 31, 2017	**P1,096,905**	**P421,950**	**P1,518,855**

8. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2017**	2016
Payroll-related payable		**P2,759,038**	P2,532,642
Payable to BRAC Bangladesh	12	**705,380**	1,245,659
Payable to Stichting BRAC International	12	**521,965**	2,406,325
Payable to NGO partners		**664,387**	321,360
Withholding tax payable		**109,064**	95,489
Accrued expenses		**1,393,853**	517,020
		P6,153,687	P7,118,495

Payables to BRAC Bangladesh and Stichting BRAC International pertain to reimbursements for expenses incurred in providing management and technical support to the Branch.

Payable to NGO partners pertain to the excess of the costs incurred for projects over the fund provided by the Branch.

Accrued expenses pertains to the accrual of insurance benefits of the Branch's employees..

9. Grant Agreement

A Grant Agreement between the Commonwealth of Australia, as represented by then AusAID and Stichting BRAC International, Inc. was executed on February 3, 2012 covering the ADM project for the BEAM-ARMM. This Grant Agreement was effective until June 30, 2015.

In accordance with the provisions of the Grant Agreement, the Branch received from AusAID a grant of AUD30,500,000 for the management and implementation of the ADM project which was given in four (4) tranches as follows:

- the first tranche amounting to AUD7,000,000 was given within thirty (30) days from the date of the agreement;
- the second tranche amounting to AUD7,700,000 was given in August 2012;
- the third tranche amounting to AUD9,000,000 was given in August 2013; and
- the fourth and final tranche amounting to AUD6,800,000 was given in August 2014.

The schedule of tranches is subject to the terms and conditions as stipulated in the Grant Agreement.

In March 2015, the Amendment of the Grant Agreement ("Amendment") was executed by DFAT which extended the period covered by the Grant Agreement until June 30, 2017. As part of the Amendment, additional two (2) tranches were included amounting to AUD6,105,866 for each tranche. The first tranche was given in September 2015 and the remaining tranche was given on August 2016. As a result of the Amendment, the new total amount of the grant is AUD42,711,732 from the previous amount of AUD30,500,000. Another amendment on December 29, 2015 was done resulting to the reduction of the remaining tranche which was received on September 2016 amounting to AUD5,379,880. As a result of the Amendment, the total amount of the grant received was AUD41,985,746 from the previous amount of AUD42,711,732.

In March 2017, the Branch was able to obtain a one (1) year extension until June 30, 2018 (Note 1) for the Grant Agreement subject to the following conditions:

- the total amount of the grant received was AUD41,609,982 from the previous amount of AUD42,323,737.
- the operational budget for the additional year will be taken from the unspent funds.
- the remaining unspent funds will be returned by the Branch to DFAT.
- the extension will focus on ensuring the transition of the children to DepEd managed schools.
- monitoring and supervision of the learning centers will be done jointly by the Branch and DepEd.

The grant received by the Branch from DFAT/AusAID which has not yet been utilized in the implementation of the ADM Project as at December 31, 2017 and 2016 amounted to P84,274,070 and P253,324,742, respectively.

10. Project Expenses

Project expenses incurred per cost component for the years ended December 31, 2017 and 2016, respectively, are presented below:

Description	2017	2016
Component 1: Curriculum, Materials and Assessment Development	P308,115	P -
Component 2: Community Learning Center Operations	104,544,189	161,359,532
Component 3: Capacity Building	8,748,854	13,884,322
Component 4: Project Management, Monitoring and Evaluation	30,463,095	41,156,810
	P144,064,253	P216,400,664

The Branch entered into various agreements with local NGOs. As provided under the terms of these agreements, the NGOs will manage the operation of the CLCs in their designated provinces in ARMM. As at December 31, 2017, the Branch, together with its duly recognized local NGOs, implemented and managed the ADM Project for 442 CLCs.

The Branch disburses funds to its local partner NGOs on a quarterly basis for the management and operations of the CLCs in their designated areas and provinces. The partner NGOs will liquidate the funds received for the expenses incurred in accordance with the agreement.

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH
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NOTES TO THE FINANCIAL STATEMENTS

Reclassification of Components of Project Expenses

The following cost component in 2016 have been reclassified to conform with the 2017 financials statements presentations as follows:

Description	As Previously Reported	Effect of Reclassification	As Reclassified
Component 1: Curriculum, Materials and Assessment Development	P-	P -	P -
Component 2: Community Learning Center Operations	173,584,753	(12,225,221)	161,359,532
Component 3: Capacity Building	2,019.629	11,864,693	13,884,322
Component 4: Project Management, Monitoring and Evaluation	40,796,282	360,528	41,156,810
	P216,400,664	P-	P216,400,664

As at December 31, 2017 and 2016, the disbursed funds to local partner NGOs which are not yet liquidated are as follows:

Description	2017	2016
Maranao People Development Center, Inc.	P318,568	P349,848
Integrated Learning for Moslems and Highlanders Foundations	112,178	112,592
Kapagawida Development Services Association, Inc.	110,924	138,919
Notre Dame University	66,492	214,509
Community and Family Services International	42,401	960,166
Integrated Resource Development for Tri-People	21,255	133,499
Nagdilaab Foundation Inc.	18,531	104,457
Kalimudan Sa Ranao Foundation, Inc.	17,794	93,895
Tapukan Farmers Multipurpose Cooperative	15,374	51,083
Muslim Upliftment Foundation of Tawi-Tawi, Inc.	10,776	44,334
Concerned Alliance of Professional and Students Inc.	10,001	57,809
Mindanao Autonomous College Foundation Inc.	8,418	62,857
Sug Educators Forum Incorporated	-	96,777
Mahardika Institute of Technology, Inc.	-	41,136
Social Services for Grassroots Community Development, Inc.	-	24,016
	P752,712	P2,485,897

Other project expenses during the year include:

	2017	2016
ERP software and service charge overhead costs	P11,844,081	P8,775,573
Office running costs	2,453,204	3,190,741
Insurance	154,123	155,469
Innovation	-	24,770
	P14,451,408	P19,333,742

11. General and Administrative Expenses

This account consists of:

	Note	2017	2016
Technical support	12	P5,527,934	P39,773,107
Outside services		1,520,137	638,247
Professional fees		863,120	871,148
Security measurement management		677,158	908,988
Transportation and travel		206,258	331,133
Utilities		72,694	102,524
Support services		8,052	29,998
Others		584,132	299,642
		P9,459,485	P42,954,787

Professional fees pertains to expenses related to external audit services incurred by the Branch.

12. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

In the implementation of the ADM project, the Branch has transactions with its related parties as at 2017 and 2016 as follows:

Related Party/Transaction	Ref		Amount of the Transaction	Outstanding Balance Due to Related Parties	Terms and Conditions
Head office					
• Technical support	12a	2017	P7,744,918	P521,965	30 days; non-interest
		2016	39,563,659	2,406,325	bearing; unsecured
BRAC Bangladesh					
• Technical support	12a	2017	4,804,292	705,380	30 days; non-interest
		2016	7,784,928	1,245,659	bearing; unsecured
		2017		P1,227,345	
		2016		P3,651,984	

a.Technical support pertains to reimbursements to BRAC Bangladesh and the Head Office for expenses paid for in providing administration and financial management assistance to the Branch. It also entails sending support personnel to the Branch for the efficient and effective management and implementation of the ADM Project in accordance with the provisions of the Grant Agreement.

b.Compensation and other short-term benefits of key management personnel amounted to P6,288,480 and P7,822,283 as at December 31, 2017 and 2016, respectively.

The Branch has no receivable from related parties as at December 31, 2017 and 2016.

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH
(A Nonstock, Nonprofit Organization)
NOTES TO THE FINANCIAL STATEMENTS

13. Lease Commitments

On March 5, 2012, the Branch entered into a lease agreement for a parcel of land located at No. 1 R. Mañara Street, Rosary Heights 10, Cotabato City with two (2) residential buildings, two (2) stories with an annex one room office and a guard house, with concrete perimeter fence. The lease was renewed for a fixed period of three (3) years until February 28, 2018. In August 2017, the lease agreement was terminated. The Branch transferred the Country Office from Cotabato City to DBP Village, Ma-a, Davao City and entered into a lease agreement for the period of one year commencing on August 1, 2017.

In August 2017, the Branch entered into a new lease agreement for the office located at Pansacal St, RH-10 Cotabato City until May 2018.

The Branch also leases various premises serve as Project Office. The lease period which ranges until two (2) years. All these lease agreements require a refundable deposit except Zamboanga office.

Refundable deposits amounted to P179,944 and P355,850 as at December 31, 2017 and 2016, respectively.

The future rental payables for these lease agreements are as follows:

	2017	2016
Within one year	P442,000	P1,451,400
After one year but not more than five years	-	160,000
	P442,000	P1,611,400

Rent expense amounted to P7,378,331 and P10,964,618 in 2017 and 2016, respectively.

14. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the notes to financial statements which were prepared in accordance with PFRS. The following is the tax information required by Revenue Regulations No. 15-2010 for the taxable year ended December 31, 2017:

The Branch reported and/or paid the following types of taxes in 2017:

A. Withholding Taxes

Tax on compensation and benefits	P697,581
Final withholding taxes	311,557
	P1,009,138

All Other Taxes (Local and National)	
Other taxes paid during the year recognized under	
"Taxes and licenses" account under Project Expenses	
Licenses and permits	P12,860

B. Deficiency Tax Assessments

As at December 31, 2017, the Branch has no deficiency tax assessment.

C. Tax Cases

As at December 31, 2017, the Branch has no pending tax court cases nor has received tax assessment notices from the BIR.

The Branch is a non-VAT registered entity not engaged in the sale of goods or service. All of its receipts, excluding interest income from banks, come from grants which were not charged with output VAT. The input tax incurred in all of its costs and expenses were charged to operations.

Information on the amount of custom duties and tariff fees, excise taxes and documentary stamp taxes paid or accrued are not applicable since the Branch did not enter into transactions that resulted in payment or accrual of such taxes.

STICHTING BRAC INTERNATIONAL, INC.

(Incorporated in Netherlands) PHILIPPINE BRANCH
(A Nonstock, Nonprofit Organization)

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017
(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

R.G. Manabat & Co.
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March 8, 2018

The Board of Directors and Stockholders
Stichting BRAC International, Inc. - Philippine Branch
No. 469 South Street, DBP Village
Ma-a, Davao City

Attention: Mr. Mohammad Mamdudur Rashid, Group CFO Designate BRAC and BRAC International

Gentlemen:

We have audited in accordance with Philippine Standards on Auditing, the financial statements of the Philippine Branch Office of Stichting BRAC International, Inc.(a nonstock, nonprofit organization) as at December 31, 2017 and 2016, and have issued our report thereon dated March 8, 2018. Such financial statements have been presented in Philippine peso, being the Branch's functional currency.

In reference to your request, we are pleased to submit the accompanying financial statements containing supplementary information using the U.S. dollars as the presentation currency.

Please note that the said financial statements are intended solely as supplementary information for the use of the Board of Directors of the Head Office of the Branch and the Management of the Philippine Branch Office of Stichting BRAC International, Inc. and are not intended to be and should not be used by anyone other than these specified parties.

Yours very truly,

Vernilo G. Yu
Partner

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)
SUPPLEMENTARY INFORMATION TO THE
STATEMENTS OF ASSETS AND LIABILITIES
(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

		December 31	
	Note	2017	2016
ASSETS			
Current Assets			
Cash	4, 5	**$1,760,844**	$5,088,966
Other current assets	6	**16,472**	54,544
Total Current Assets		**1,777,316**	5,143,510
Noncurrent Assets			
Property and equipment - net	7	**30,424**	78,080
Refundable deposits	4, 13	**3,604**	7,144
Total Noncurrent Assets		**34,028**	85,224
		$1,811,344	$5,228,734
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	4, 8	**$123,263**	$142,913
Deferred grant income	9	**1,688,081**	5,085,821
Total Current Liabilities		**$1,811,344**	$5,228,734

See Notes to the Financial Statements.

Mohammad Humayun Kabir,
Head of Finance
Stichting BRAC International
Philippines Branch

Efren V Lubuguin,
Country Representative
Stichting BRAC International
Philippines Branch

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)
SUPPLEMENTARY INFORMATION TO THE
STATEMENTS OF INCOME AND EXPENSES
(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

		Years Ended December 31	
	Note	**2017**	2016
INCOME			
Grants	9	**$3,096,102**	$5,105,196
Interest income	5	**3,648**	1,741
		3,099,750	5,106,937
PROJECT EXPENSES			
Learning facilitators allowances	14	**1,144,464**	1,524,063
Partner non-government organizations (NGO) employee benefits	14	**347,023**	545,440
Salaries and employee benefits	14	**320,728**	438,126
School supplies		**185,895**	544,000
Training and orientation		**175,247**	278,746
Transportation and travel		**160,537**	230,539
Rent	13	**147,794**	220,129
Evaluation activity		**63,654**	88,997
Office utilities		**44,483**	85,885
Production and development		**6,172**	-
Taxes and licenses		**258**	448
Others	10	**289,474**	388,150
		2,885,729	4,344,523
OTHER NONCASH EXPENSES (INCOME)			
Depreciation	7	**46,635**	56,077
Foreign exchange gains	4	**(22,096)**	(156,036)
		24,539	(99,959)
GENERAL AND ADMINISTRATIVE EXPENSES	11	**189,482**	862,373
		3,099,750	5,106,937
NET EXCESS OF INCOME OVER EXPENSES		**$ -**	$ -

See Notes to the Financial Statements.

Mohammad Humayun Kabir,
Head of Finance
Stichting BRAC International
Philippines Branch

Efren V Lubuguin,
Country Representative
Stichting BRAC International
Philippines Branch

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)
SUPPLEMENTARY INFORMATION TO THE
STATEMENTS OF CASHFLOWS
(TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

		Years Ended December 31	
	Note	*2017*	*2016*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net excess of income over expenses		**$ -**	$ -
Adjustments for:			
Depreciation	7	**46,635**	56,077
Loss on disposal of property and equipment	7	**843**	-
Interest income	5	**(3,648)**	(1,741)
Excess of income over expenses before working capital changes		**43,830**	54,336
Decrease in:			
Other current assets	6	**37,949**	3,881
Refundable deposits		**3,524**	824
Increase (decrease) in:			
Accounts payable and accrued expenses		**(19,326)**	5,466
Deferred grant income	9	**(3,386,228)**	(1,612,996)
Cash used in operations		**(3,320,251)**	(1,548,489)
Interest received		**3,648**	1,741
Net cash used in operating activities/decrease in cash		**(3,316,603)**	(1,546,748)
Adjustments*		**(11,519)**	7,508
CASH AT BEGINNING OF YEAR		**5,088,966**	6,628,206
CASH AT END OF YEAR	5	**$1,760,844**	$5,088,966

**Adjustment to translate beginning balance at closing rate as of December 31, 2017*
See Notes to the Financial Statements.

STICHTING BRAC INTERNATIONAL, INC. - PHILIPPINE BRANCH

(A Nonstock, Nonprofit Organization)
SUPPLEMENTARY INFORMATION TO THE
NOTES TO THE FINANCIAL STATEMENTS
(WITH AMOUNTS TRANSLATED TO U.S. DOLLARS USING CLOSING RATE AT REPORTING DATE)

1. Branch Information

Stichting BRAC International, Inc. (the "Head Office"), a foundation registered under the laws of The Netherlands, was granted by the Philippine Securities and Exchange Commission (SEC) a license to transact business in the Philippines (the "Branch") on January 25, 2012 to manage the implementation of education assistance projects in Mindanao as part of the then Australian Agency for International Development (AusAID) program, which subsequently changed its name to Department of Foreign Affairs and Trade (DFAT) - Australian Aid Program. The Branch implements the "Alternative Delivery Model (ADM) Project" of the Basic Education Assistance for Mindanao in the Autonomous Region in Muslim Mindanao (BEAM-ARMM) with an objective of improving access to quality pre-school and elementary education, particularly in communities without access to or which have difficulty in accessing government schools.

The Branch's management and implementation of the ADM Project of the BEAM-ARMM has the following components:

Component 1: Curriculum, Materials and Assessment Development
This component involves reviewing the Department of Education's (DepEd) standard curriculum for both pre-school and the six-year elementary education to develop a mechanism and instructional plan for enhanced delivery, identification of appropriate teaching and learning materials for both pre-school and elementary education and the mechanism and tools to monitor and measure student learning and inform how the program delivery could be improved.

Component 2: Community Learning Center Operations
This component involves the establishment and operation of Community Learning Centers (CLCs) in identified priority barangays (villages). The CLCs implements the curriculum for both pre-school and elementary education targeting primarily the out-of-school children in barangays without schools and in areas with large number of out-of-school children.

Component 3: Capacity Building
This component develops the capacity of key stakeholders to manage and sustain the implementation of an alternative delivery model for basic education. The key activities under this component include core resource group training in Bangladesh for senior managers of DepED Central and ARMM, trainings and workshops for specialized trainers, curriculum writers, project officers and coordinators, learning facilitators and specialized training courses for educators on curriculum materials development, assessment and instructional supervision.

Component 4: Project Management, Monitoring and Evaluation
This component includes the establishment, staffing and operations of the project management unit and provincial offices. In addition, this component performs the general coordination and supervision of CLCs, monitoring and evaluation, policy support and coordination for scale-up to other regions and conducts research and impact evaluations and policy advocacies.

As of the date of the approval of the financial statements, the Branch is extending its efforts in looking for opportunities of new donors as its current Grant Agreement with DFAT will terminate on June 30, 2018 which may cast doubt on the continued existence of the Branch. The Branch also has ongoing negotiations with DFAT for extension of another one year from July 2018 to use the estimated remaining funds of $470 thousand after the expiration of the Agreement on June 30, 2018. Management will continue its efforts to source for additional funding.

The Branch, in its letter to International Tax Affairs Division of the Bureau of International Revenue dated May 10, 2013, has requested for confirmation of the tax exemption privileges of the BEAM-ARMM Program pursuant to Section 30 of the Tax Reform Act of 1997 (R.A 8424). As at December 31, 2017, the Branch has not received confirmation of the said tax exemption.

The registered office of the Branch, which is also its principal place of business, is located at House No. 496 South Street, DBP Village, Ma-a, Davao City.

2. Basis of Preparation

Statement of Compliance
The financial statements, which are the basis of this supplementary information, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). However, the supplementary information displays financial information from the financial statements which are translated using the closing rate for Philippine peso to U.S. dollar as of reporting date. PFRS is based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consists of PFRS, Philippine Accounting Standards, and Philippine Interpretations.

The accompanying financial statements were approved and authorized for issue by the Board of Directors on March 8, 2018.

Basis of Measurement
The Branch's financial statements have been prepared under the historical cost basis of accounting.

Functional Currency
The Branch's functional currency is Philippine peso. However, these supplementary information to the financial statements were prepared by translating all financial information to U.S. dollar using the closing rate of Bangko Sentral ng Pilipinas as at December 31, 2017 and 2016 and has been rounded off to the nearest U.S. dollar, except when otherwise indicated. These supplemental information to the financial statements were prepared solely for the use of management.

Use of Estimates and Judgments
The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the Branch's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Branch, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the cost of implementing the project.

Operating Lease - Branch as Lessee
The Branch has entered into lease agreements as lessee. The Branch determined that all significant risks and rewards of ownership of the properties leased from third parties are retained by the lessors under operating lease agreements.

Rent expense charged to operations amounted to $147,794 and $220,129 in 2017 and 2016, respectively (see Note 13).

Estimates and Assumptions
The Branch reviews key assumptions concerning the future and other key sources of estimation and uncertainty at reporting date that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimating Useful Lives of Property and Equipment
The Branch estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use or the duration of the ADM Project whichever is shorter. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

As at December 31, 2017 and 2016, the Branch has evaluated that there were no key estimates and assumptions used in the preparation of the financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Financial Instruments
Date of Recognition. The Branch recognizes a financial asset or financial liability in the statements of assets and liabilities when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, include transaction costs.

The Branch classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Branch classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets are acquired and financial liabilities are incurred whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Branch has no AFS financial assets, HTM investments and financial assets and liabilities at FVPL.

Financial Assets
Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the statements of income and expenses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the statements of income and expenses. Gains or losses are recognized in profit or loss when loans and receivables are derecognized and impaired.

Cash represents cash in bank and is stated at its face value, and earns interest at the respective bank deposit rates.

The Branch's cash and refundable deposits as at December 31, 2017 and 2016 are classified as loans and receivables.

Financial Liabilities
Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial recognition, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Branch's accounts payable and accrued expenses (excluding statutory liabilities to government agencies) are classified under this category.

Derecognition of Financial Assets and Financial Liabilities
Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset expired;
- the Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Branch has transferred its right to receive cash flows from the asset and either: has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from a financial asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Branch's continuing involvement in the financial asset.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Branch could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statements of assets and liabilities if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented on a gross basis in the statements of assets and liabilities.

Impairment of Financial Assets
The Branch assesses at each reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Branch first assesses whether an impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Branch includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the year is recognized in profit or loss. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Property and Equipment
Items of property and equipment are initially measured at cost. After initial recognition, all items of property and equipment are measured at cost less accumulated depreciation, and accumulated impairment losses, if any. Cost includes expenditures that are directly

attributable to the acquisition of the asset. The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statements of income and expenses as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation is recognized in the statements of income and expenses on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, or the remaining term of the ADM Project, whichever is shorter.

The estimated useful life of each item of property and equipment is as follows:

	Number of Years
Office furniture and equipment	3 - 5
Transportation equipment	5

If there is an indication that there has been a significant change in the depreciation method, useful life or residual value of an asset, the depreciation of that asset is reviewed and adjusted prospectively if appropriate.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized on a net basis in the statements of income and expenses.

Impairment of Non-financial Assets
The carrying amounts of the Branch's nonfinancial assets such as property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

An impairment loss is recognized in the statements of income and expenses whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use.

The fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of the useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statements of income and expenses.

Recognition of Grants
Grants received from Commonwealth of Australia, as represented by the DFAT are initially recognized as deferred income and are then recognized as income to the extent of the expenses incurred for the year as set in the conditions associated with the grant. Assets acquired thru the grant are also recognized as deferred income and are recognized as income on a systematic basis over the useful life of the asset or duration of the ADM Project, whichever is shorter.

Interest Income
Interest income, presented net of applicable tax withheld by the banks, is recognized when earned.

Expense Recognition
Costs and expenses are recognized upon receipt of goods, utilization of services or at the date these are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Operating Lease
Leases which do not transfer to the Branch substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of income and expenses on a straight-line basis over the lease term unless other systematic basis is more representative of the time pattern of the Branch's benefit.

Foreign Currency Transactions
Transactions denominated in foreign currencies of the financial statements of the Branch where the functional currency is Philippine peso are recorded using the applicable exchange rate in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in Philippine peso using the exchange rate prevailing at the reporting date.

Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded and translated at reporting date are recognized in the statements of income and expenses in the year in which they arise.

Provisions
Provisions are recognized when the Branch has a legal or constructive obligation as a result of a past events, it is probable that an outflow of economic benefits will be required to settle the obligation and reliable estimate of the amount can be made.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Branch's statements of assets and liabilities at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

New or Revised Standards, Amendments to Standards and Interpretations
Adopted as of January 1, 2017
A number of new or revised standard, amendments to standards and interpretation are effective as of January 1, 2017 and are required to be adopted by the Branch. While these have been adopted as of January 1, 2017, none of these have a significant impact on the Branch's financial statements.

To be Adopted in the Future
A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017. These will be adopted by the Branch as these become effective. None of these are expected to have a significant impact on the Branch's financial statements.

4. Financial Risk Management

Objectives and Policies
The Branch has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing such risks, and the Branch's management of capital. Further quantitative disclosures are included throughout the notes to the financial statements.

The main purpose of the Branch's dealings in financial instruments is to fund its operations and capital expenditures.

The Governing Body of the Head Office of the Branch has overall responsibility for the establishment and oversight of the Branch's risk management framework. The Governing Body has established the Audit Committee, which is responsible for developing and monitoring the Branch's risk management policies.

The Audit committee identifies all issues affecting the operations of the Branch and reports regularly to the Governing Body on its activities. The Branch's risk management policies are established to identify and analyze the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Branch's activities.

Mitigating strategies and procedures are devised to address the risks that inevitably occur so as not to affect the Branch's operations and impact forecasted results.

The Branch, through its training on and management of standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Country Representative performs oversight over financial management functions, specifically in the areas of managing credit, market and other risks of the Branch. The Country Representative directly interfaces with the internal audit function, which undertakes reviews of risk management controls and procedures and ensures the integrity of internal control activities which affect the financial management system of the Branch.

Credit Risk

The results of procedures performed by the Country Representative are reported to the Audit Committee. The Country Representative reviews and institutes policies for managing each of the risks and they are summarized below.

The aging of financial assets as at December 31, are as follows:

2017

	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	31 - 60 Days	61 - 90 Days	90 Days	Past Due and Impaired	Total
Cash in banks	**$1,759,086**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$1,759,086**
Refundable deposit	**3,604**	**-**	**-**	**-**	**-**	**-**	**3,604**
	$1,762,690	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$1,762,690**

2016

	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	31 - 60 Days	61 - 90 Days	90 Days	Past Due and Impaired	Total
Cash in banks	$5,085,922	$ -	$ -	$ -	$ -	$ -	$5,085,922
Refundable deposit	7,144	-	-	-	-	-	7,144
	$5,093,066	$ -	$ -	$ -	$ -	$ -	$5,093,066

The maximum exposure to credit risk for the Branch's financial assets as at December 31 is presented below:

	Note	**2017**	2016
Cash in banks	*5*	**$1,759,086**	$5,085,922
Refundable deposits	*13*	**3,604**	7,144
		$1,762,690	$5,093,066

Below is the classification of the Branch's financial assets that are neither past-due nor impaired:

2017	**High Grade**	**Standard Grade**	**Total**
Cash in banks	**$1,759,086**	**$ -**	**$1,759,086**
Refundable deposits	**3,604**	**-**	**3,604**
	$1,762,690	**$ -**	**$1,762,690**

2016	High Grade	Standard Grade	Total
Cash in banks	$5,085,922	$ -	$5,085,922
Refundable deposits	7,144	-	7,144
	$5,093,066	$ -	$5,093,066

High grade quality financial assets are those assessed as having minimal credit risk since these were assessed as having no instances of payment default. Standard grade refer to accounts of satisfactory financial capability and credit standing but with some element of risks where certain measure of control is necessary in order to mitigate risk of default.

The credit qualities of financial assets were determined as follows:

- Cash in banks is considered high grade as these pertains to deposits in reputable banks.
- Refundable deposits are considered high grade as these pertain to deposits that are covered by the lease agreements. Having minimal credit risk since these were assessed as having no instances of payment default.

The Branch's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Branch's credit risk is concentrated on its cash in banks for the years ended December 31, 2017 and 2016. The Branch's management performs an assessment of its external environment, including the related risks and limitations, and selects the Branch's depository banks based on factors such as reputation in the market place, and compliance with regulations, among others.

Liquidity Risk

Liquidity risk pertains to the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Branch's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed at the least possible cost.

The table below summarizes the maturity profile of the Branch's financial liabilities based on contractual undiscounted payments used for liquidity management:

As at December 31, 2017

	Carrying Amount	**Contractual Cash Flow**	**1 Year or Less**	**1 Year - 5 Years**
Financial Liabilities*				
Accounts payable and accrued expenses	**$119,577**	**$119,577**	**$119,577**	**$ -**

**Excluding statutory payables.*

As at December 31, 2016

	Carrying Amount	Contractual Cash Flow	1 Year or Less	1 Year - 5 Years
*Financial Liabilities**				
Accounts payable and accrued expenses	$138,750	$138,750	$138,750	$ -

**Excluding statutory payables.*

Market Risk

Market risk is the risk that changes in foreign exchange rates which affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign Currency Risk

The Branch is exposed to foreign currency risk on monetary asset and liability held in currencies other than the Philippine peso, the Branch ensures that its exposure is kept to an acceptable level by maintaining regular savings deposits in U.S. dollar and buying foreign currencies at spot rates where necessary to address short-term imbalances.

The Branch's foreign currency-denominated assets and liabilities as at December 31 are as follows:

2017	Current Assets	Current Liabilities	Net Foreign Currency Exposure
Currency			
USD	**1,408,124**	**24,586**	**1,383,538**

2016	Current Assets	Current Liabilities	Net Foreign Currency Exposure
Currency			
USD	3,090,813	73,318	3,017,495

The Branch recognized foreign exchange gains of $22,096 and $156,036 in 2017 and 2016, respectively.

Sensitivity Analysis
A 0.4% strengthening of the Philippine peso against USD as at December 31, 2017 would have decreased foreign exchange gains by $5,565. The strengthening of the rates is reasonably possibly to have happened based on management assessment. A 6% strengthening of the Philippine peso against USD as at December 31, 2016 would have decreased foreign exchange gains by $170,251.

A weakening of the Philippine peso against the USD by the same percentage as above as at December 31, 2017 and 2016 would have had equal but opposite effect on the basis that all other variables remain constant.

Percentage of the analysis is based on the change in Philippine peso against USD exchange rate used during the year and previous year.

The increase in USD rate means stronger USD against Philippine peso while the decrease in USD means stronger Philippine peso against USD.

Fair Values
The carrying value of cash approximates its fair value, since it can be readily withdrawn and used for operations at any time. The fair value of the refundable deposits approximates its carrying amount since it can be reasonably be collected on their due dates.

5. Cash

This account consists of:

	Note	**2017**	2016
Cash on hand		**$1,758**	$3,044
Cash in banks	4	**1,759,086**	5,085,922
		$1,760,844	$5,088,966

Cash in banks earn annual interest at the respective bank deposit rates.

Interest income earned from cash in banks in 2017 and 2016 amounted to $3,648 and $1,741, respectively.

6. Other Current Assets

This account consists of:

	2017	2016
Advances to non-government organizations (NGO) partners and Branch employees	**$16,472**	$53,253
Other assets	**-**	1,291
	$16,472	$54,544

Advances to NGO partners and Branch employees represent advances given by the Branch which exceeded amounts liquidated as of December 31, 2017. These are expected to be applied against expenses for the next quarter.

7. Property and Equipment

The movements and balances of this account are as follows:

	Office Furniture and Equipment	Transportation Equipment	Total
Cost			
January 1, 2017	$98,977	$202,265	$301,242
Adjustment*	(224)	(458)	(682)
Disposals	(6,983)	-	(6,983)
December 31, 2017	**91,770**	**201,807**	**293,577**
Accumulated Depreciation			
January 1, 2016	**47,512**	**128,924**	**176,436**
Adjustment*	(2,518)	(6,833)	(9,351)
Depreciation	15,624	40,453	56,077
December 31, 2016	**60,618**	**162,544**	**223,162**
Adjustment*	(137)	(368)	(505)
Depreciation	15,456	31,179	46,635
Disposals	(6,139)	-	(6,139)
December 31, 2017	**69,798**	**193,355**	**263,153**
Carrying Amount			
December 31, 2016	$38,359	$39,721	$78,080
December 31, 2017	**$21,972**	**$8,452**	**$30,424**

**Adjustment to translate beginning balance at closing rate as of December 31, 2017*

8. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2017**	2016
Payroll-related payable		**$55,266**	$53,743
Payable to BRAC Bangladesh	12	**14,129**	25,008
Payable to Stichting BRAC International	12	**10,455**	48,310
Payable to NGO partners		**13,308**	6,452
Withholding tax payable		**2,185**	1,917
Accrued expenses		**27,920**	7,483
		$123,263	$142,913

Payables to BRAC Bangladesh and Stichting BRAC International pertain to reimbursements for expenses incurred in providing management and technical support to the Branch.

Payable to NGO partners pertain to the excess of the costs incurred for projects over the fund provided by the Branch.

Accrued expenses pertains to the accrual of insurance benefits of the Branch's employees.

9. Grant Agreement

A Grant Agreement between the Commonwealth of Australia, as represented by then AusAID and Stichting BRAC International, Inc. was executed on February 3, 2012 covering the ADM project for the BEAM-ARMM. This Grant Agreement was effective until June 30, 2015.

In accordance with the provisions of the Grant Agreement, the Branch received from AusAID a grant of AUD30,500,000 for the management and implementation of the ADM project which was given in four (4) tranches as follows:

- the first tranche amounting to AUD7,000,000 was given within thirty (30) days from the date of the agreement;
- the second tranche amounting to AUD7,700,000 was given in August 2012;
- the third tranche amounting to AUD9,000,000 was given in August 2013; and
- the fourth and final tranche amounting to AUD6,800,000 was given in August 2014.

The schedule of tranches is subject to the terms and conditions as stipulated in the Grant Agreement.

In March 2015, the Amendment of the Grant Agreement ("Amendment") was executed by DFAT which extended the period covered by the Grant Agreement until June 30, 2017. As part of the Amendment, additional two (2) tranches were included amounting to AUD6,105,866 for each tranche. The first tranche was given in September 2015 and the remaining tranche will be given on August 2016. As a result of the Amendment, the new total amount of the grant is AUD42,711,732 from the previous amount of AUD30,500,000. Another amendment on 29 December 2015 was done resulting to the reduction of the remaining trance which was received on September 2016 amounting to AUD 5,379,880. As a result of the amendment the total of the grants received was AUD 41,985,746 from the previous amount of
AUD 42,711,732.

In March 2017, the Branch was able to obtain a one (1) year extension until June 30, 2018 (Note 1) for the Grant Agreement subject to the following conditions:

- the total amount of the grant received was AUD41,609,982 from the previous amount of AUD42,323,737.
- the operational budget for the additional year will be taken from the unspent funds.
- the remaining unspent funds will be returned by the Branch to DFAT.
- the extension will focus on ensuring the transition of the children to DepEd managed schools.
- monitoring and supervision of the learning centers will be done jointly by the Branch and DepEd

As of December 31, 2017 and 2016, grant received by the Branch from DFAT/AusAID which has not yet been utilized in the implementation of the ADM Project amounts to $1,688,081 and $5,085,821, respectively.

10. Project Expenses

Project expenses per cost component as at December 31, 2017 and 2016, respectively, are presented below:

Description	2017	2016
Component 1: Curriculum, Materials and Assessment Development	$6,172	$ -
Component 2: Community Learning Center Operations	2,094,109	3,239,501
Component 3: Capacity Building	175,247	278,746
Component 4: Project Management, Monitoring and Evaluation	610,201	826,276
	$2,885,729	$4,344,523

The Branch entered into various agreements with local NGOs. As provided under the terms of these agreements, the NGOs will manage the operation of the CLCs in their designated provinces in ARMM. As at December 31, 2017, the Branch, together with its duly recognized local NGOs, implemented and managed the ADM Project for 442 CLCs.

The Branch disburses funds to its local partner NGOs on a quarterly basis for the management and operations of the CLCs in their designated areas and provinces. The partner NGOs will liquidate the funds received for the expenses incurred in accordance with the agreement.

Reclassification of Components of Project Expenses

The following cost component in 2016 have been reclassified to conform with the 2017 financials statemnts presentations as follows:

Project Expenses	As Previously Reported	Effect of Reclassification	As Reclassified
Component 1: Curriculum, Materials and Assessment Development	$-	$ -	$ -
Component 2: Community Learning Center Operations	3,484,938	(245,437)	3,239,501
Component 3: Capacity Building	40,547	238,199	278,746
Component 4: Project Management, Monitoring and Evaluation	819,038	7,238	826,276
	$4,344,523	$-	$4,344,523

As at December 31, 2017 and 2016, the disbursed funds to local partner NGOs which are not yet liquidated are as follows:

Description	2017	2016
Maranao People Development Center, Inc.	$6,381	$7,024
Integrated Learning for Moslems and Highlanders Foundations	2,247	2,260
Kapagawida Development Services Association, Inc.	2,222	2,789
Notre Dame University	1,332	4,307
Community and Family Services International	$849	19,277
Integrated Resource Development for Tri-People	426	2,680
Nagdilaab Foundation Inc.	371	2,097
Kalimudan Sa Ranao Foundation, Inc.	356	1,885
Tapukan Farmers Multipurpose Cooperative	308	1,026
Muslim Upliftment Foundation of Tawi-Tawi, Inc.	216	890
Concerned Alliance of Professional and Students Inc.	200	1,161
Mindanao Autonomous College Foundation Inc.	169	1,262
Sug Educators Forum Incorporated	-	1,943
Mahardika Institute of Technology, Inc.	-	826
Social Services for Grassroots Community Development, Inc.	-	482
	$15,077	$49,909

Other project expenses during the year include:

	2017	2016
ERP software and service charge overhead costs	$237,247	$176,181
Office running costs	49,140	144,790
Insurance	3,087	64,058
Innovation	-	3,121
	$289,474	$388,150

11. General and Administrative Expenses

This account consists of:

	Note	2017	2016
Technical support	*12*	$110,729	$798,497
Outside services		30,450	12,814
Professional services		17,289	17,489
Security measurement management		13,564	18,249
Transportation and travel		4,132	6,648
Utilities		1,456	2,058
Support services		161	602
Others		11,701	6,016
		$189,482	$862,373

Professional fees pertains to expenses related to external audit services incurred by the Branch.

12. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

In the implementation of the ADM project, the Branch has transactions with its related parties as at December 31, 2017 and 2016 as follows:

Related Party/Transaction	*Ref*	Year	Amount of the Transaction	Outstanding Balance Due to Related Parties	Terms and Conditions
Head office					
Technical support	*12a*	**2017**	**$155,137**	**$10,455**	**30 days; non-**
		2016	794,291	48,310	**interest bearing**
					unsecured
BRAC Bangladesh					
Technical support	*12a*	**2017**	**96,234**	**14,129**	**30 days; non-**
		2016	156,292	25,008	**interest bearing;**
					unsecured
		2017		**$24,584**	
		2016		$73,318	

a. Technical support pertains to reimbursements to BRAC Bangladesh and the Head Office for expenses it paid for in providing administration and financial management assistance to the Branch. It also entails sending support personnel to the Branch for the efficient and effective management and implementation of the ADM Project in accordance with the provisions of the Grant Agreement.

b. Compensation and other short-term benefits of key management personnel amounted to $125,964 and $157,042 as at December 31, 2017 and 2016, respectively.

The Branch has no receivable from related parties as at December 31, 2017 and 2016.

13. Lease Commitments

On March 5, 2012, the Branch entered into a lease agreement for a parcel of land located at No. 1 R. Mañara Street, Rosary Heights 10, Cotabato City with two (2) residential buildings, two (2) stories with an annex one room office and a guard house, with concrete perimeter fence. The lease was renewed for a fixed period of three (3) years until February 28, 2018. In August 2017, the lease agreement was terminated. The Branch transferred the Country Office from Cotabato City to DBP Village, Ma-a, Davao City and entered into a lease agreement for the period of one year commencing on August 1, 2017.

In August 2017, the Branch entered into a new lease agreement for the office located at Pansacal St, RH-10 Cotabato City until May 2018.

The Branch also leases various premises serve as Project Office. The lease period which ranges until two (2) years. All these lease agreements require a refundable deposit except Zamboanga office.

Refundable deposits amounted to $3,604 and $7,144 as at December 31, 2017 and 2016, respectively.

The future rental payables for these lease agreements are as follows:

	2017	2016
Within one year	**$8,854**	$29,139
After one year but not more than five years	**-**	3,212
	$8,854	$32,351

Rent expense amounted to $147,794 and $220,129 in 2017 and 2016, respectively.

14. Staff Costs

	Salaries and Employee Benefits	Learning Facilitators Allowances	Partner NGOs Employee Benefits
Basic salary			
2017	**$276,671**	**$1,004,692**	**$295,464**
2016	380,883	1,333,640	465,224
13th month pay/Bonus			
2017	**12,045**	**82,370**	**23,440**
2016	17,580	111,890	35,414
SSS/Philhealth/Pag-ibig /Provident Fund/Gratuity			
2017	**32,012**	**57,402**	**28,120**
2016	39,663	78,533	44,802
2017	**$320,728**	**$1,144,464**	**$347,024**
2016	$438,126	$1,524,063	$545,440

15. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the notes to financial statements which were prepared in accordance with PFRS. The following is the tax information required by Revenue Regulations No. 15-2010 for the taxable year ended
December 31, 2017:

The Branch reported and/or paid the following types of taxes in 2017:

A. Withholding Taxes

Tax on compensation and benefits	**$13,973**
Final withholding taxes	**6,241**
	$20,214

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under
"Taxes and licenses" account under Project Expenses

Licenses and permits	**$258**

C. Deficiency Tax Assessments

As at December 31, 2017, the Branch has no deficiency tax assessment.

D. Tax Cases

As at December 31, 2017, the Branch has no pending tax court cases nor has received tax assessment notices from the BIR.

The Branch is a non-VAT registered entity not engaged in the sale of goods or service. All of its receipts, excluding interest income from banks, come from grants which were not charged with output VAT. The input tax incurred in all of its costs and expenses were charged to operations.

Information on the amount of custom duties and tariff fees, excise taxes and documentary stamp taxes paid or accrued are not applicable since the Branch did not enter into transactions that resulted in payment or accrual of such taxes.

BRAC International/Communications/AR17/June 18

COVER PHOTO:

BRAC

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