SEDPI Capital Credit, Inc.

Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

CS200803725

SEC Registration Number

SEDPI Capital Credit, Inc.

(Company's Full Name)

450 J. Marzan Street, Sampaloc, Manila

(Business Address: No. Street City/Town/Province)

Edwin M. Salonga

(Contact Person)

(632) 433 - 8795

(Company Telephone Number)

12 *Month* **31** *Day*

(Fiscal Year)

AAFS

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Capital Credit, Inc.
450 J. Marzan Street
Sampaloc, Manila

Report on the Financial Statements

We have audited the accompanying financial statements of SEDPI Capital Credit, Inc. (the Company), which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SEDPI Capital Credit, Inc. as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 19 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 information is the responsibility of the management of SEDPI Capital Credit, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-1
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641538, January 3, 2011, Makati City

June 28, 2011

INDEPENDENT AUDITORS' REPORT

The Board of Directors
SEDPI Capital Credit, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of SEDPI Capital Credit, Inc. (the Company), which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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SYCIP GORRES VELAYO & CO.

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June 28, 2011

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN

The Stockholders and the Board of Directors
SEDPI Capital Credit, Inc.
450 J. Marzan Street,
Sampaloc, Manila

We have audited the financial statements of SEDPI Capital Credit, Inc. (the Company) as of and for the year ended December 31, 2010, on which we have rendered the attached report dated June 28, 2011.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-1
Tax Identification No. 152-884-691
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June 28, 2011

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
SEDPI Capital Credit, Inc.
450 J. Marzan Street,
Sampaloc, Manila

We have audited the financial statements of SEDPI Capital Credit, Inc. (the Company) as of and for the year ended December 31, 2010 on which we have rendered the attached report dated June 28, 2011.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has five (5) stockholders owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Aris C. Malantic
Partner
CPA Certificate No. 90190
SEC Accreditation No. 0326-AR-1
Tax Identification No. 152-884-691
BIR Accreditation No. 08-001998-54-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641538, January 3, 2011, Makati City

June 28, 2011

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash in banks (Note 6)	**₱3,366,213**	₱2,209,110
Loans and receivables - current portion (Note 7)	**33,915,483**	18,399,031
Other assets (Note 9)	**157,388**	–
	37,439,084	20,608,141
Noncurrent Assets		
Loans and receivables - noncurrent portion (Note 7)	**40,268,478**	7,072,943
Property, plant and equipment (Note 8)	**6,996,637**	745,714
Deferred tax asset (Note 16)	**199,608**	93,358
	47,464,723	7,912,015
	₱84,903,807	₱28,520,156
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 10)	**₱8,306,543**	₱5,484,671
Long-term debt - current portion (Note 11)	**45,750,000**	2,500,000
Income tax payable	**113,857**	258,017
Accrued expenses and other liabilities (Note 12)	**6,313,844**	5,410,744
	60,484,244	13,653,432
Noncurrent Liability		
Long-term debt - noncurrent portion (Note 11)	**14,750,000**	7,500,000
	75,234,244	21,153,432
Equity (Note 13)		
Capital stock	**8,000,000**	6,416,600
Retained earnings	**1,669,563**	950,124
	9,669,563	7,366,724
	₱84,903,807	₱28,520,156

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	2010	2009
INTEREST INCOME (Notes 6 and 7)	**₱6,565,748**	₱3,983,017
INTEREST EXPENSE (Notes 10 and 11)	**2,991,879**	1,217,393
NET INTEREST INCOME	**3,573,869**	2,765,624
OTHER INCOME	**30,228**	–
TOTAL OPERATING INCOME	**3,604,097**	2,765,624
EXPENSES		
Compensation and fringe benefits	**1,287,970**	1,292,037
Transportation and travel	**448,389**	67,545
Provision for credit losses (Note 7)	**353,050**	122,880
Taxes and licenses	**211,026**	43,273
Rental, light and power (Note 14)	**192,207**	136,055
Depreciation expense (Note 8)	**5,801**	–
Miscellaneous (Note 15)	**272,685**	100,438
	2,771,128	1,762,228
INCOME BEFORE INCOME TAX	**832,969**	1,003,396
PROVISION FOR INCOME TAX (Note 16)	**113,530**	222,728
NET INCOME	**719,439**	780,668
OTHER COMPREHENSIVE INCOME*	–	–
TOTAL COMPREHENSIVE INCOME	**₱719,439**	₱780,668

* There were no other comprehensive income items in 2010 and 2009.

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 13)	Retained Earnings (Note 13)	Total Equity
Balance at January 1, 2010	**₱6,416,600**	**₱950,124**	**₱7,366,724**
Issuance of additional capital stock	**1,583,400**	**–**	**1,583,400**
Total comprehensive income for the year	**–**	**719,439**	**719,439**
Balance at December 31, 2010	**₱8,000,000**	**₱1,669,563**	**₱9,669,563**
Balance at January 1, 2009	₱6,397,800	₱169,456	₱6,567,256
Issuance of additional capital stock	18,800	–	18,800
Total comprehensive income for the year	–	780,668	780,668
Balance at December 31, 2009	₱6,416,600	₱950,124	₱7,366,724

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
STATEMENTS OF CASH FLOWS

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱832,969**	₱1,003,396
Adjustments for:		
Provision for credit losses (Note 7)	**353,050**	122,880
Depreciation expense (Note 8)	**5,801**	–
Unrealized foreign exchange losses	**1,118**	–
Changes in operating assets and liabilities		
Increase in the amounts of:		
Loans and receivables	**(49,065,037)**	(10,277,095)
Other assets	**(157,388)**	–
Accrued expenses and other liabilities	**903,100**	3,893,372
Net cash used in operations	**(47,126,387)**	(5,257,447)
Income taxes paid	**(363,940)**	(163,546)
Net cash used in operating activities	**(47,490,327)**	(5,420,993)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property and equipment (Note 8)	**(6,256,724)**	(745,714)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term debt (Note 11)	**50,500,000**	5,000,000
Availment of loans payable (Note 10)	**3,909,491**	3,793,749
Issuance of additional capital stock (Note 13)	**1,583,400**	18,800
Payment of loans payable	**(1,087,619)**	(1,078,331)
Net cash provided by financing activities	**54,905,272**	7,734,218
EFFECT OF FOREIGN EXCHANGE DIFFERENCES	**(1,118)**	–
NET INCREASE IN CASH IN BANKS	**1,157,103**	1,567,511
CASH IN BANKS AT BEGINNING OF PERIOD	**2,209,110**	641,599
CASH IN BANKS AT END OF PERIOD	**₱3,366,213**	₱2,209,110

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱6,081,630**	₱3,842,845
Interest paid	**2,312,655**	1,092,665

See accompanying Notes to Financial Statements.

SEDPI CAPITAL CREDIT, INC.
NOTES TO FINANCIAL STATEMENTS

1. General Information

SEDPI Capital Credit, Inc. (the Company) is a domestic corporation incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 10, 2008. The Company is engaged in the business of providing loans to micro, small and medium enterprises.

The Company's principal place of business is located at 450 J. Marzan Street, Sampaloc, Manila.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine peso, the Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

<u>Statement of Compliance</u>
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except for the following PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which were adopted as of January 1, 2010, except when otherwise indicated, did not have significant impact on the accounting policies, financial position or performance of the Company:

New and Amended Standards and Interpretations
- PFRS 2, *Share-based Payment (Amendment): Group Cash-settled Share-based Payment Transactions*
- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

Improvements to PFRSs
The omnibus amendments to PFRSs, were issued in 2008 and 2009 primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Parent Company.

Improvements to PFRSs 2008
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

Improvements to PFRSs 2009
- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 1, *Presentation of Financial Statements*
- PAS 7, *Statements of Cash Flows*
- PAS 17, *Leases*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

Significant Accounting Policies

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Financial instruments are recognized in the statement of financial position when cash is received by the Company or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, available-for-sale (AFS) investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at cost or amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. As of December 31, 2010 and 2009, the Company has no financial assets and financial liabilities at FVPL, AFS investments and HTM investments.

Determination of fair value
The fair value of financial instruments traded in active markets as at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of

comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables
These are nonderivative financial assets with fixed or determinable payments that are not quoted in active market and for which the Company has no intention of trading. This accounting policy relates to statement of financial position captions, 'Cash in banks' and 'Loans and receivables'.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such receivables are recognized as 'Provision for credit losses' in the statement of comprehensive income.

Loans and receivables are classified as nonperforming or considered impaired when the principal is past due, or when, in the opinion of management, collection of interest and principal is doubtful. These receivables will not be reclassified as performing until interest and principal payments are brought current or the receivables are restructured and future payments appear assured. Receivables are considered past due when three installment payments are in arrears.

Other financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated as financial liabilities at FVPL, are classified as 'Loans payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, loans payable and similar financial liabilities not qualified as and not designated as financial liabilities at FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed as obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights 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 the risks and rewards of the asset but has transferred control over the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 gross in the statement of financial position.

Impairment of Financial Assets
The Company assesses at each statement of financial position date whether there is objective evidence that 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 has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Provision for credit losses' in the statement of comprehensive income.

If subsequently, 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 the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements except for certain transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of comprehensive income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

<u>Foreign Currency Transactions and Translations</u>
Transactions denominated in foreign currency are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated monetary assets and liabilities at year end rate translated to Philippine peso based on the Philippine Dealing System closing rate prevailing at end of the year. Gains or losses arising from foreign currency transactions and translation adjustment of foreign currency-denominated assets and liabilities are credited to or charged against current operations.

Property and Equipment

Property and equipment is stated at cost less any impairment in value. The initial cost comprises its construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets.

The estimated useful life of computer and other equipment is 3 years.

The useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

Impairment of Property and Equipment

At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of the asset's recoverable amount. Recoverable amount is the higher of an asset's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Company as lessee
Leases where the lessor retains 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 statement of comprehensive income on a straight-line basis over the lease term.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes
Current taxes
Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the statement of financial position date.

Deferred taxes
Deferred tax is provided or recognized in full using the balance sheet liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

Deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), if any, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax assets to be recovered.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to a paid-in premium account.

Events After the Statement of Financial Position Date

Post year-end events that provide additional information about the Company's position at statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued But Not Yet Effective

Standards issued but not yet effective up to date of issuance of the Company's financial statements are listed below. The listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

PAS 24 (Amended), *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Company will assess the impact of the amendment when this becomes effective.

PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

PFRS 7, *Financial Instruments: Disclosures (Amendments) - Disclosures - Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the hedge accounting and derecognition will be addressed. The completion of this project is expected in mid 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010
Improvements to PFRSs is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments are listed below.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

The Company will assess impact of these amendments on its financial position or performance when they become effective.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change, the effects of any change in judgments and estimates are reflected in the financial statement as they become reasonably determinable.

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.

Judgments

(a) *Operating leases*
The Company has entered into a contract of lease for the office space it occupies. The Company has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower that the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that the lessor retains all significant risks and rewards of ownership of the properties which are leased out on operating lease.

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Estimates

(a) *Credit losses of loans and receivables*
The Company reviews its loan portfolios and receivables at each reporting date to assess whether a provision for credit losses should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

As of December 31, 2010 and 2009, the carrying value of loans and receivables amounted to ₱74.18 million and ₱25.47 million, respectively (see Note 7). As of December 31, 2010 and 2009, allowance for credit losses on loans and receivables amounted to ₱0.66 million and ₱0.31 million, respectively (see Note 7).

(b) *Impairment of property and equipment*
The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount represents the asset's (or cash generating units) value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

As of December 31, 2010 and 2009, the carrying value of property and equipment amounted to ₱7.00 million and ₱0.75 million, respectively (see Note 8).

(c) *Recognition of deferred tax asset*
The Company reviews the carrying amount of deferred tax asset at each statement of financial position date and reduces to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Recognized deferred tax asset as of December 31, 2010 and 2009 amounted to ₱0.20 million and ₱0.09 million, respectively (see Note 16).

4. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by assessing the creditworthiness of its counterparties. The Company continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date. Credit applications go through a process of screening using the Company's credit standards to minimize risk.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown net of allowance for credit losses.

	2010	2009
Loans and receivables		
Receivables from customers		
Corporate	**₱61,297,384**	₱22,484,267
Individual	**5,608,331**	1,879,705
Other receivables		
Due from Social Enterprise Development Partnerships, Inc. (SEDPI)	**4,710,060**	–
Advances to shareholder	**1,943,895**	967,829
Accrued interest receivable	**624,291**	140,173
Cash in banks	**3,366,213**	2,209,110
	₱77,550,174	₱27,681,084

The tables below show the credit quality per class of the Company's loans and receivables, gross of allowance for credit losses:

	2010			
	Neither past due nor impaired			
	High grade	**Standard grade**	**Sub-standard grade**	**Total**
Receivables from customers				
Corporate	**₱55,820,578**	**₱3,291,667**	**₱2,785,213**	**₱61,897,458**
Individual	**5,484,167**	**188,333**	**–**	**5,672,500**
Other receivables				
Due from SEDPI	**4,710,060**	**–**	**–**	**4,710,060**
Advances to shareholder	**1,943,895**	**–**	**–**	**1,943,895**
Accrued interest receivable	**420,810**	**76,197**	**127,284**	**624,291**
Cash in banks	**3,366,213**	**–**	**–**	**3,366,213**
	₱71,745,723	**₱3,556,197**	**₱2,912,497**	**₱78,214,417**

	2009			
	Neither past due nor impaired			
	High grade	Standard grade	Sub-standard grade	Total
Receivables from customers				
Corporate	₱11,579,587	₱6,166,667	₱5,018,087	₱22,764,341
Individual	1,910,824	–	–	1,910,824
Other receivables				
Advances to shareholder	967,829	–	–	967,829
Accrued interest receivable	49,742	57,428	33,003	140,173
Cash in banks	2,209,110	–	–	2,209,110
	₱16,717,092	₱6,224,095	₱5,051,090	₱27,992,277

The Company's bases in grading its loans and receivables follow:

High grade - pertains to receivables with low probability of default. Counterparties are safe and sound and are resistant to external shocks and financial upheavals, and can really adapt to adverse developments in its operating environment.

Standard grade - pertains to receivables with low to moderate default risk. Counterparty has safe and sound operational policies and procedures and can withstand the ups and downs of the business cycle. There are some operational procedures that need to be fixed; otherwise they could negatively affect the operations.

Substandard grade - pertains to receivables that require varying degrees of special attention and default risk is of great concern. While acceptable, counterparties have quite a few operational policies, practices and procedures that need to be strengthened or rectified. These need to be corrected on a priority basis, or there will be further deterioration which could put the counterparty at risk.

Past due or individually impaired - this pertains to receivables that defaulted in several payments. Counterparty has serious operational problems that need to be addressed on an urgent basis; otherwise there is a high risk of failure. Counterparty with this score needs close supervision by the appropriate regulatory, oversight authority, or lender.

As of December 31, 2010 and 2009, the Company has no past due but not impaired loans and receivables.

Liquidity Risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity risk is managed by holding sufficient liquid assets to ensure short-term funding requirements are met. The Company has non-interest bearing obligations. Deposits with banks are made on a short-term basis with almost all being available on demand or within three months.

Analysis of financial assets and financial liabilities by remaining maturities
The tables below summarize the maturity profile of the Company's financial assets and financial liabilities based on remaining contractual undiscounted cash flows:

	2010				
	On demand	**Up to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets					
Cash in banks	**₱3,366,213**	**₱–**	**₱–**	**₱–**	**₱3,366,213**
Loans and receivables					
Receivables from customers:					
Corporate	**–**	**4,048,777**	**14,189,631**	**60,004,527**	**78,242,935**
Individual	**–**	**216,850**	**1,058,600**	**5,686,250**	**6,961,700**
Other receivables:					
Due from SEDPI	**4,710,060**	–	–	–	**4,710,060**
Advances to shareholder	**1,943,895**	–	–	–	**1,943,895**
Accrued interest receivable	**624,291**	–	–	–	**624,291**
	₱10,644,459	**₱4,265,627**	**₱15,248,231**	**₱65,690,777**	**₱95,849,094**
Financial Liabilities					
Loans payable	**₱35,401**	**₱2,117,848**	**₱6,980,408**	**₱–**	**₱9,133,657**
Long-term debt	**–**	**15,725,000**	**32,647,292**	**38,840,000**	**87,212,292**
Other liabilities:					
Accrued interest payable	**1,226,739**	**–**	**–**	**–**	**1,226,739**
Accrued expenses	**294,749**	**–**	**–**	**–**	**294,749**
Due to SEDPI	**51,313**	**–**	**–**	**–**	**51,313**
Accounts payable	**32,616**	**–**	**–**	**–**	**32,616**
	₱1,640,818	**₱17,842,848**	**₱39,627,700**	**₱38,840,000**	**₱97,951,366**

	2009				
	On demand	Up to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets					
Cash in banks	₱2,209,110	₱–	₱–	₱–	₱2,209,110
Loans and receivables					
Receivables from customers:					
Corporate	–	4,752,749	14,281,587	8,920,841	27,955,177
Individual	306,000	739,650	1,192,484	9,250	2,247,384
Other receivables:					
Advances to shareholder	967,829	–	–	–	967,829
Accrued interest receivable	140,173	–	–	–	140,173
	₱3,623,112	₱5,492,399	₱15,474,071	₱8,930,091	₱33,519,673
Financial Liabilities					
Loans payable	₱–	₱1,230,844	₱4,815,836	₱–	₱6,046,680
Long-term debt	–	–	3,250,000	8,550,000	11,800,000
Other liabilities:					
Advances from shareholder	669,268	–	–	–	669,268
Accrued interest payable	547,515	–	–	–	547,515
Accrued expenses	351,511	–	–	–	351,511
Due to SEDPI	41,432	–	–	–	41,432
Accounts payable	–	–	–	–	–
	₱1,609,726	₱1,230,844	₱8,065,836	₱8,550,000	₱19,456,406

Market Risk
Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Company focuses on the following market risk areas such as interest rate risk and foreign currency risk.

Interest rate risk
The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. There are no floating rate financial assets and liabilities. Cash in banks earn interest at prevailing market rates. The Company's exposure to interest rate risk is minimal.

Foreign currency risk
The Company's policy is to maintain foreign currency exposure within acceptable. The Company's exposure to foreign exchange risk is minimal.

5. Fair Value Measurement

The methods used by the Company in estimating the fair value of the financial instruments follow:

Cash in banks - The carrying amounts approximate fair values in view of the relatively short term maturities of these financial assets.

Loans and receivables - Fair values of receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of receivables. The carrying amounts of other receivables approximate fair values due to short-term nature of these receivables.

Accrued expenses and other liabilities - The carrying amounts approximate fair values due to their short-term maturities.

Loans payable and long-term debt - Fair values are estimated by discounting the future contractual cash flows at current market interest rate that is available to the Company for similar financial instruments.

The following table summarizes the carrying amounts and fair values of the financial assets and liabilities:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans Receivables:				
Cash in banks	**₱3,366,213**	**₱3,366,213**	₱2,209,110	₱2,209,110
Receivables from customers:				
Corporate	**61,297,384**	**68,930,747**	22,484,267	23,834,023
Individual	**5,608,331**	**6,657,342**	1,879,705	2,115,570
Other receivables:				
Due from SEDPI	**4,710,060**	**4,710,060**	–	–
Advances to shareholder	**1,943,895**	**1,943,895**	967,829	967,829
Accrued interest receivable	**624,291**	**624,291**	140,173	140,173
Total financial assets	**₱77,550,174**	**₱86,232,548**	₱27,681,084	₱29,266,705

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Loans payable	**₱8,306,543**	**₱8,813,000**	₱5,484,671	₱5,697,225
Long-term debt	**60,500,000**	**64,027,593**	10,000,000	10,796,685
Other liabilities:				
Accrued interest payable	**1,226,739**	**1,226,739**	547,515	547,515
Accrued expenses	**294,749**	**294,749**	351,511	351,511
Due to SEDPI	**51,313**	**51,313**	41,432	41,432
Accounts payable	**32,616**	**32,616**	–	–
Advances from shareholder	–	–	669,268	669,268
Total financial liabilities	**₱70,411,960**	**₱74,446,010**	₱17,094,397	₱18,103,636

For financial instruments recorded at fair value, the Company uses the following three-level fair value hierarchy based on the source of inputs on their valuation:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 - techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2010 and 2009, the Company has no financial instruments recognized at fair value.

6. Cash in Banks

This account consists of:

	2010	2009
Peso-denominated		
Savings deposit	**₱2,925,934**	₱2,141,070
Demand deposit	**418,223**	44,735
	3,344,157	2,185,805
US dollar-denominated		
Savings deposit	**22,056**	23,305
	₱3,366,213	₱2,209,110

Peso-denominated savings deposits bear annual interest rates of 0.50% and 0.63% in 2010 and 2009, respectively. Dollar-denominated savings deposits bear annual interest rate of 0.25% in 2010 and 2009. Interest income on cash in banks amounted to ₱9,424 and ₱7,873 in 2010 and 2009, respectively.

7. Loans and Receivables

This account consists of:

	2010	2009
Receivables from customers:		
Corporate	**₱61,897,458**	₱22,764,341
Individual	**5,672,500**	1,910,824
	67,569,958	24,675,165
Other receivables:		
Due from SEDPI (Note 17)	**4,710,060**	–
Advances to shareholder (Note 17)	**1,943,895**	967,829
Accrued interest receivable	**624,291**	140,173
	74,848,204	25,783,167
Less allowance for credit losses	**664,243**	311,193
	₱74,183,961	₱25,471,974

Reconciliation of the allowance for credit losses on receivables from customers by class follow:

	2010			2009		
	Corporate	**Individual**	**Total**	Corporate	Individual	Total
Balance at beginning of year	**₱280,074**	**₱31,119**	**₱311,193**	₱177,000	₱11,313	₱188,313
Provision for credit losses	**320,000**	**33,050**	**353,050**	103,074	19,806	122,880
Balance at end of year	**₱600,074**	**₱64,169**	**₱664,243**	₱280,074	₱31,119	₱311,193

Interest income on receivable from customers amounted to ₱6.56 million in 2010 and ₱3.98 million in 2009.

8. Property and Equipment

The composition of and movements in the property and equipment account follow:

	2010		
	Computer and Other Equipment	Construction-in-Progress	Total
Cost			
Balance at beginning of year	₱–	₱745,714	₱745,714
Additions	69,616	6,187,108	6,256,724
Balance at end of year	69,616	6,932,822	7,002,438
Accumulated Depreciation and Amortization			
Depreciation	5,801	–	5,801
Net Book Value	₱63,815	₱6,932,822	₱6,996,637

Construction-in-progress represents total payments for labor and materials incurred for the construction of office building of the Company. As of December 31, 2009, capital expenditures related to the construction amounted to ₱0.75 million.

9. Other Assets

As of December 31, 2010, this account consists of prepaid rent, prepaid taxes and input value added taxes (VAT).

10. Loans Payable

This account pertains to borrowings from Stichting-Habagat, Overseas Filipino's Society for the Promotion of Economic Security (OFSPES) and SEDPI. As of December 31, 2010 and 2009, loans payable amounted to ₱8.31 million and ₱5.48 million, respectively.

The loans payable are subject to annual fixed interest rate of 10.00% in 2010 and ranging from 6.00% to 12.00% in 2009. Interest expense incurred amounted to ₱0.73 million and ₱0.38 million in 2010 and 2009, respectively.

11. Long-term Debt

This account represents debt obtained from a microfinance funder and BPI Globe Banko, Inc., a savings bank mainly to finance the Company's working capital requirements in providing loans to emerging microfinance institutions.

The loan agreement with Cordaid, stipulates that the loan of ₱10.00 million will be disbursed in two equal installments, one was on October 27, 2008 and the other on January 20, 2009, and interest payment is fixed at 8.00% payable semi-annually. The principal shall be repaid in eight equal installments of ₱1.25 million, payable in Euro. The loan matures on October 27, 2013.

The second agreement with Cordaid, stipulates that the debt will be received by the Company in two equal installments of ₱6.50 million on June 15, 2010 and December 15, 2010 for a total of ₱13.00 million. The debt bears fixed interest rate of 8.00%, payable semi-annually; the first payment of interest to be made six (6) months after the Company has received the first installment. The principal shall be repaid in eight equal installments of ₱1.63 million starting in month 18 after the first disbursement, payable in Euro. The loan matures on October 4, 2015.

Interest expense on long-term debt amounted to ₱2.26 million and ₱0.84 million in 2010 and 2009, respectively.

12. Accrued Expenses and Other Liabilities

This account consists of:

	2010	2009
Advances from shareholders (Note 17)	**₱3,782,579**	₱4,041,316
Accrued interest payable	**1,226,739**	547,515
Output value-added tax	**700,765**	407,813
Accrued expenses	**296,783**	351,511
Cash advance	**160,220**	–
Due to SEDPI (Note 17)	**51,313**	41,432
Expanded tax payable	**44,743**	4,088
Accounts payable	**32,616**	–
Compensation withholding tax payable	**18,086**	17,069
	₱6,313,844	₱5,410,744

On November 10, 2010, the board of directors (BOD) amended the proposed increase in authorized capital stock from an increase of 60,000 common shares to 210,000 common shares with a par value of ₱200.00 per share. As represented by management, this was recorded as 'advances from stockholders' amounting to ₱3.78 million and ₱3.37 million in 2010 and 2009, respectively. The Company is planning to submit its application for approval of the increase in authorized capital stock to SEC in 2011.

13. Equity

Capital Stock

As of December 31, 2010 and 2009, the Company has an authorized 40,000 common shares with a par value of ₱200.00 per share.

The movements in the number of shares and capital stock amount follow:

	2010		2009	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance at beginning of year	**32,083**	**₱6,416,600**	31,989	₱6,397,800
Issuance of shares of stock	**7,917**	**1,583,400**	94	18,800
Balance at end of year	**40,000**	**₱8,000,000**	32,083	₱6,416,600

Capital Management

The primary objectives of the Company for capital management are to ensure its ability to continue as a going concern; to maintain quality ratios especially liquidity; and to ensure compliance with SEC regulations.

The BOD is responsible for managing the Company's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The Company's objective when managing capital (which consists of total equity as shown in the statement of financial position) is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt consists of total liabilities as shown in the statement of financial position less cash.

Pursuant to provisions of Republic Act (RA) No. 9474 also known as *Lending Company Regulation Act of 2007*, Lending companies shall be organized in the form of stock corporations at least fifty one percent (51.00%) of the voting stock of which is owned by citizens of the Philippine; shall have a minimum paid-up capital of one million pesos (₱1.0 million); shall use at least 51.00% of their funds for direct lending purposes and shall grant loans from its own capital or from funds sourced from not more than nineteen (19) persons.

As of December 31, 2010 and 2009, the Company is in compliance with such regulations.

14. **Leases**

The Company leases the office premises it occupies from its affiliate, SEDPI (see Note 17). The lease contract is for a period of one (1) year, renewable upon mutual agreement of both parties.

Rental expense included in ‘Rental, light and power’ amounted to ₱0.17 million and ₱0.09 million in 2010 and 2009, respectively.

15. **Miscellaneous Expenses**

This account consists of:

	2010	2009
Bank service charges	**₱86,192**	₱18,358
Insurance	**52,766**	–
Entertainment, amusement and recreation (EAR) (Note 16)	**37,997**	20,319
Repairs and maintenance	**15,840**	13,364
Marketing and advertising	**–**	22,500
Dues and fees	**–**	12,113
Others	**79,890**	13,784
	₱272,685	₱100,438

Others consist of supplies and photocopy, penalties, donations and notary public expenses.

16. **Income Taxes**

Current tax regulations provide that effective January 1, 2009, the RCIT rate shall be 30.00%. A final income tax at the rate of 20.00% is imposed on gross interest income on deposit. Interest expense allowed as a deductible expense is reduced by an amount equivalent to 42.00% of interest income subject to final tax until December 31, 2008 and 33.00% starting January 1, 2009.

The optional standard deduction (OSD) under RA No. 9504 may be elected as an alternative deduction in computing for the RCIT. For 2010 and 2009 RCIT computation, the Company elected to claim itemized expense deductions instead of the OSD equivalent to 40.00% of gross income.

The regulations also provide for MCIT of 2.00% on modified gross income which is paid if higher than the RCIT for the year. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against any RCIT liability for the next three years. The Company is not yet subject to MCIT in 2010 and 2009. The Company will be subjected to MCIT in 2011. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

Current tax regulations limit the amount of EAR expenses that can be claimed as deductions for income tax purposes to 1.00% of net revenue (gross revenue less discounts, if any) for sellers of services. EAR expenses amounting to ₱37,997 and ₱20,319 in 2010 and 2009, respectively, included under 'Miscellaneous expense' in the statement of comprehensive income are within the prescribed regulatory limit.

The provision for income tax consists of:

	2010	2009
Current	**₱217,895**	₱258,017
Final	**1,885**	1,575
Deferred	**(106,250)**	(36,864)
	₱113,530	₱222,728

As of December 31, 2010 and 2009, deferred tax asset represents the tax effect of the allowance for credit losses and unrealized foreign exchange losses amounting to ₱0.20 million and ₱0.09 million, respectively.

The reconciliation between the statutory income tax and the effective income tax follows:

	2010	2009
Statutory income tax	**₱249,891**	₱301,019
Tax effect of:		
Nontaxable interest income	**(145,187)**	(79,258)
Interest income subjected to final tax	**(942)**	(787)
Nondeductible expense	**8,835**	975
Nondeductible interest expense	**933**	779
Effective income tax	**₱113,530**	₱222,728

17. 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 subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties. The effects of these transactions are shown under the appropriate accounts in the financial statements as follows:

Related Party	Nature of Related Party Relationship	Nature of Transaction	Elements of Transactions: Statement of Financial Position 2010	Statement of Financial Position 2009	Statement of Comprehensive Income 2010	Statement of Comprehensive Income 2009
SEDPI	Affiliate	Due from account	**₱4,710,060**	₱–	**₱–**	₱–
		Due to account	**51,313**	41,432	**–**	–
		Management fees	**–**	–	**–**	489,070
		Rent expense	**–**	–	**165,000**	90,000
Other	Shareholder	Advances to shareholder	**1,943,895**	967,829	**–**	–
		Advances from shareholder	**3,782,579**	4,041,316	**–**	–

The Company obtains operating expense advances from SEDPI. Also, the Company has advances to and from its shareholders which arose as a result of the Company's normal operations except for those mentioned in Note 12 regarding its plan to increase the company's authorized capital stock. These advances are settled based on the Company's availability funds.

18. Approval for the Release of the Financial Statements

The accompanying financial statement as of and for the year ended December 31, 2010 was authorized for issue by the President of the Company based on the authority given by the BOD on June 28, 2011.

19. Supplementary Information Required Under Revenue Regulations No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Company reported and/or paid the following types of taxes for the year:

Value-added tax (VAT)

The NIRC of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales and interests from loans are subject to output VAT while its purchases and interest expenses paid from other VAT-registered individuals or corporations are subject to input VAT. RA No. 9337 increased the VAT rate from 10.00% to 12.00%, effective February 1, 2006.

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Net sales/receipts and output VAT declared in the Company's VAT returns filed for 2010 amounted to ₱5,354,809 and ₱642,567, respectively.

b. Input VAT for 2010

   Details of the Company's input VAT in 2010 are as follows:

Balance at beginning of year	₱10,189
Current year's domestic purchases/payments for goods for resale/manufacture or further processing	351,778
Balance at end of year	₱361,967

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the ‘Taxes and licenses’ account of the Company’s statement of comprehensive income. Details in 2010 consist of the following:

Documentary stamp taxes	₱196,918
License and permits fees	14,108
	₱211,026

Withholding Taxes

Details of withholding taxes as of December 31, 2010 are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱1,843	₱18,086
Expanded withholding taxes	97,547	44,743
	₱99,390	₱62,829