Writing and Packaging: Pinky C. Serafica

Microfinance Council of the Philippines, Inc.
Unit 1909 Jollibee Plaza Condominium
F. Ortigas, Jr. Road, Ortigas Center
1605 Pasig City, Philippines
Tel. No.: (+632) 631-6184 Telefax: (+632) 631-5920
E-mail: secretariat@microfinancecouncil.org
Website: www.microfinancecouncil.org

mcpi

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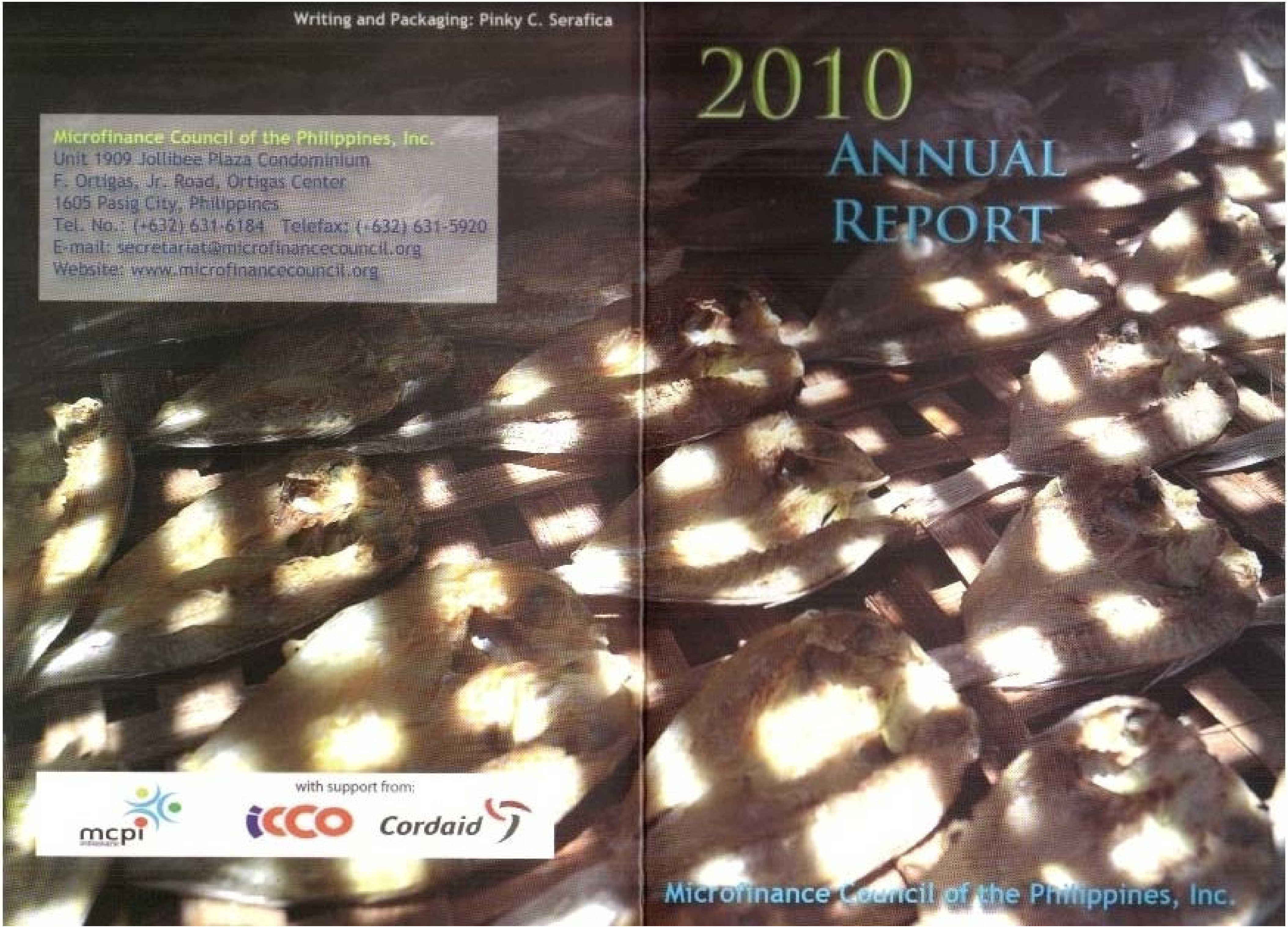
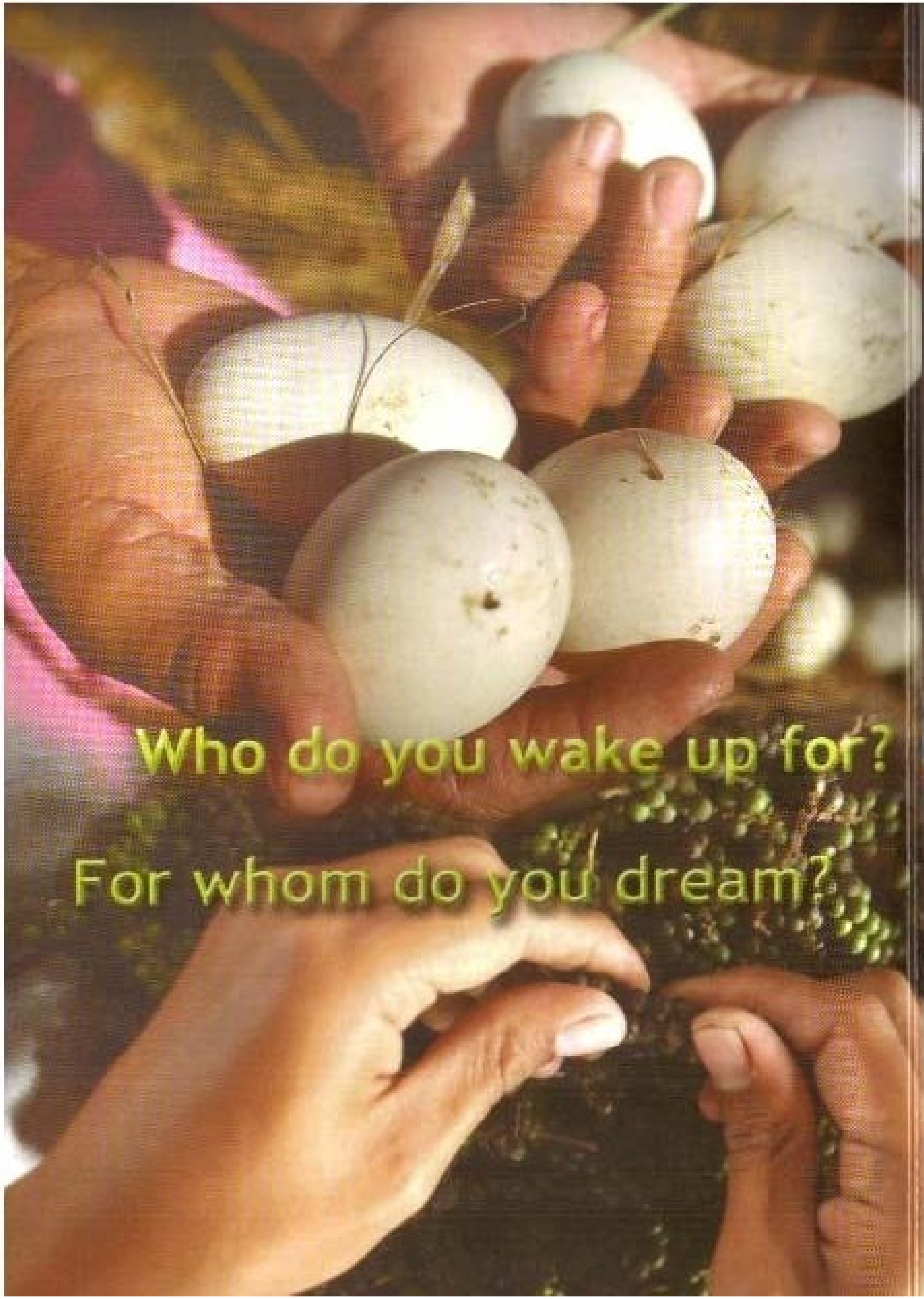


2010 ANNUAL REPORT

Microfinance Council of the Philippines, Inc.


Who do you wake up for?
For whom do you dream?


Who do you
lose sleep over?
For whom
do you lay your stake?

It is written that in the early 80s, microfinance-oriented NGOs in the Philippines joined the fight against poverty by using alternative methodologies to provide non-collateral loans and savings instruments for the poor. It is recounted that in 1989, the Philippines became among the first countries to replicate Grameen Banking on a large scale. And it is said that microfinance now grapple with two bottomlines - financial, as befits its nature, and social, as called for by its principle.

What is not written, recounted and said is that the history of microfinance did not start from a need. Perhaps diverting from recent written accounts and popular discourse, it did not begin with discontent over destitution or the ultimate cause to eliminate poverty. The environment may have set its ideological platform, the politics may have tempered its ways and means but it started way beyond that.

History misses what the heart knows. The microfinance framework was crafted from a core principle that we wake up with a reason. That we stake all for a dream. That at the crux of the microfinance sector or even the industry is the individual practitioner and advocate who is also a client and a customer. That at every cent responsibly financed, invested and reported feeds into a personal story. That one will sleep knowing that the family is not just fed and the dream fulfilled but one contributes to something bigger and better than one's existence.

PRESIDENT'S MESSAGE

Mila M. Bunker

Greetings of hope and peace to everyone! We are the catalysts of poverty alleviation at the grassroots. We are the weavers of dreams. We've traversed hard-to-reach areas. We've crossed many turbulent financial streams. We've defied dire expectations. We've come out stronger and more resilient than ever before. We live. We learn. We endure.

Yet we must not be too overbearing. Nobility of purpose, while necessary, is not a sufficient standard for us—the microfinance institutions—to be regarded as the preeminent providers of capital to the entrepreneurial poor and other unbanked sectors. It is neither a guarantee that MFIs shall ever be exempted from failures, controversies or scathing remarks. Our mission is divine yet we are not immune from the vagaries and vicissitudes of finance.

We have to overcome a variety of hurdles. As MFIs, we have to deal with asymmetric information and moral hazard issues. We have to meet, needless to say, a respectable degree of financial performance to fuel our intention of supporting self- employment and helping more micro-enterprises. We must pass the test of social performance as well. Either we fulfill our avowed mission—to help people rise out of poverty through microfinance —or we fail.

We push on—with inclusive finance as our prime motivator, social performance management as our springboard, and responsible finance as our bedrock. We shall remain steadfast in upholding and practicing the tenets of client protection—holding over-indebtedness at bay; embracing transparent and responsible pricing; rolling-out appropriate collections practices; fostering ethical staff behavior; establishing mechanisms for redress of grievances; and ensuring privacy of client data. We carry on with proper motivation, an abundance of caution and an endless inspiration in our quest to join the ever deepening fight against poverty.

We exist not because we wanted to become a ready spigot of small, non-collateralized loans. We exist because, despite the risks and uncertainties, we wanted to make a difference—no matter how incremental it may seem. We go to far-flung areas to reach out to the marginalized sectors—women, small farmers and the indigenous peoples. We transform hopes and aspirations into reality—steadily and surely. We turn modest business plans into promising economic ventures. We are the *link against poverty.*

We must strive to develop the most responsive and most appropriate loan products that are affordable and easily accessible to as many enterprising

why do we exist?

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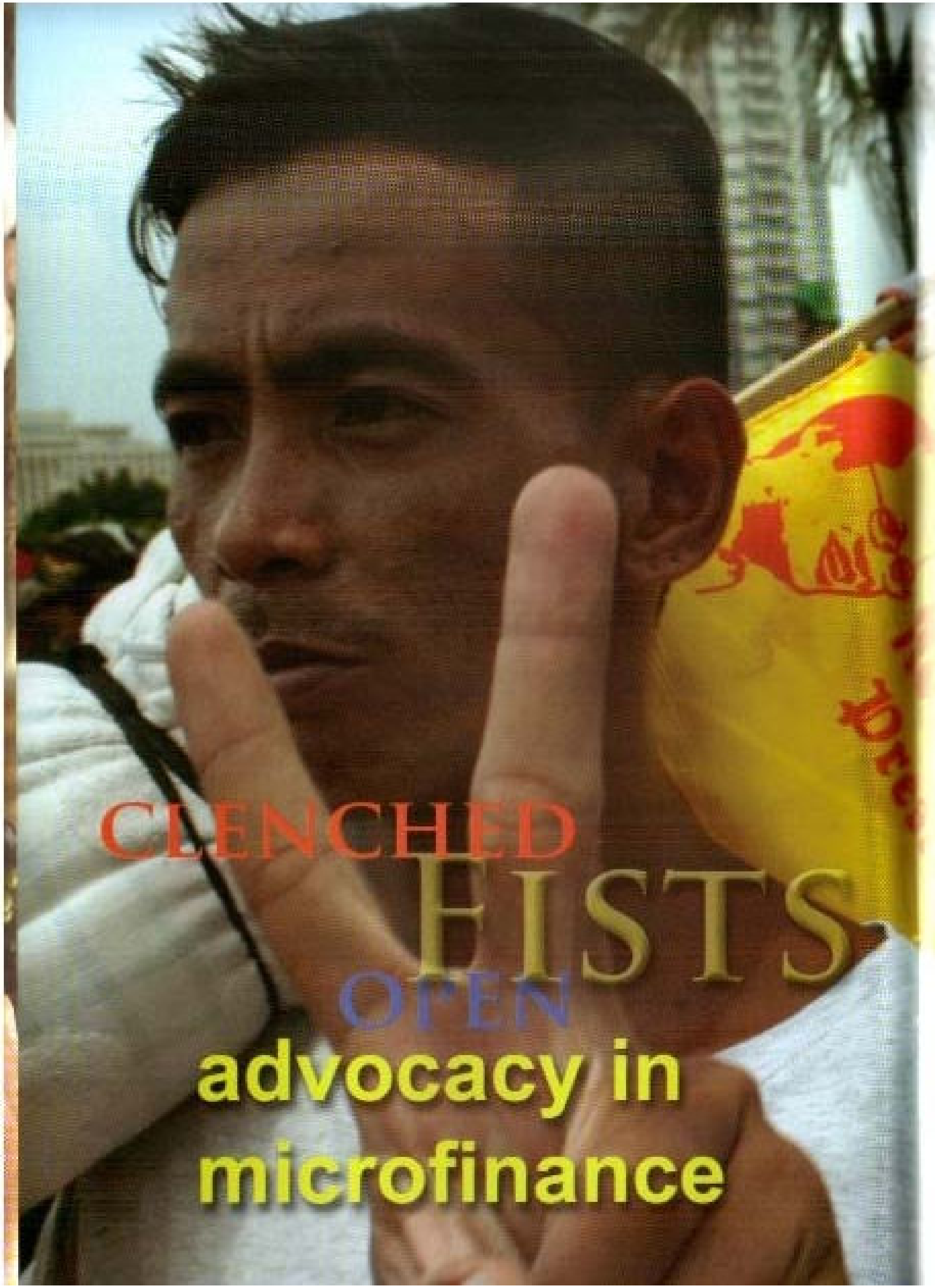


CLENCHED FISTS OPEN advocacy in microfinance

who do you fight for?

It may be as simple as keeping track of the latest microfinance buzz in various media and spreading the word to kindred. Or it can be as straightforward as doing research on policy to aid in member positioning. Or it can be lobbying for the passage of legal instruments that will make the environment more conducive, market oriented and client-friendly for the microfinance community.

For MCPI, advocacy is an external and internal stake. As an external tool, MCPI's advocacy pushes the poorer people's agenda to eliminate poverty and influence the political conversation on microfinance using evidence-backed platforms. In 2010, MCPI checked the pulse of members on NGO taxation to aid in coming up with a resolution to taxation issues. MCPI has engaged appropriate government agencies such as the Bangko Sentral ng Pilipinas to promote transparency particularly on pricing disclosure.

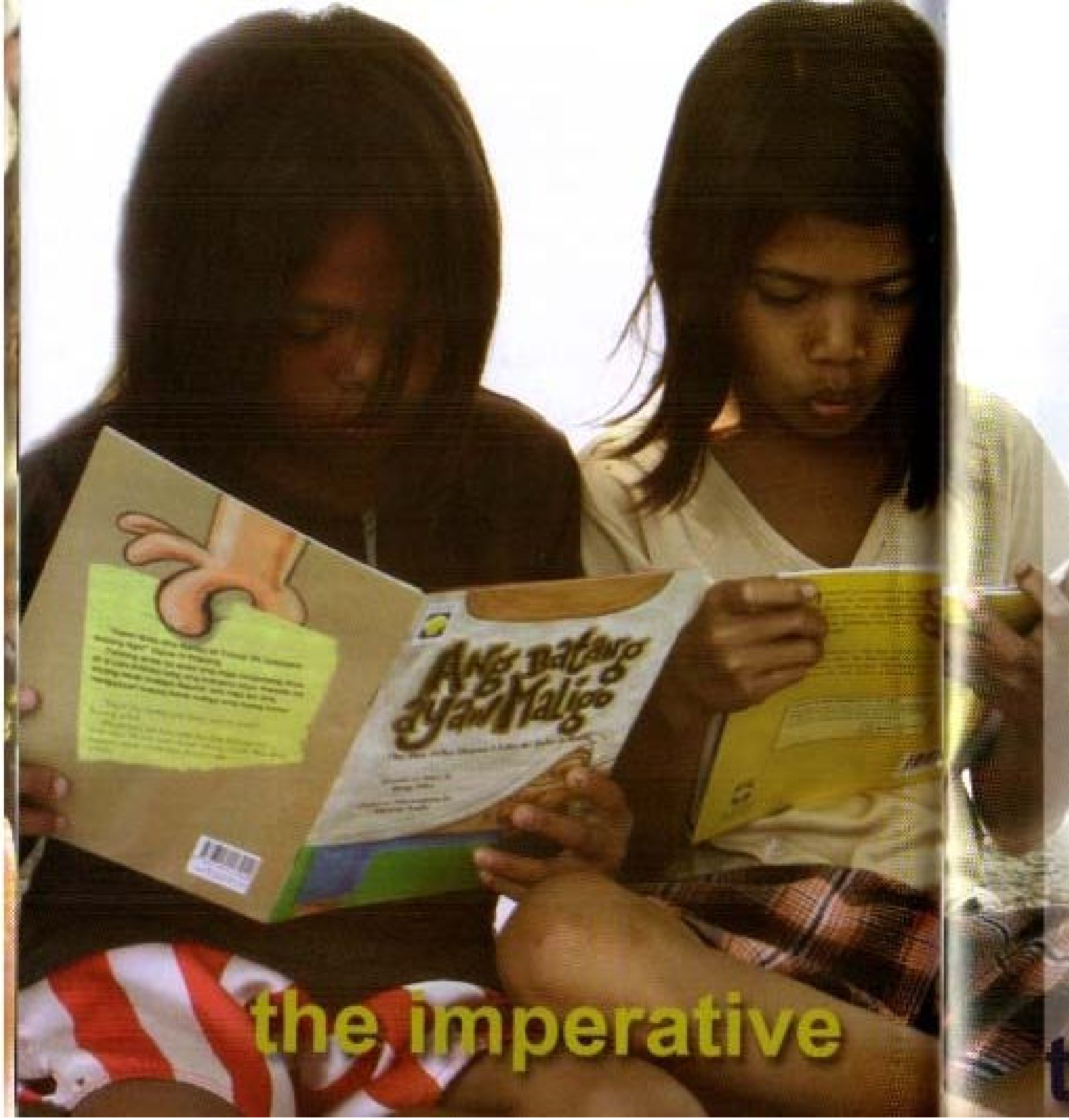
As an internal tool, MCPI's advocacy creates circles within itself to self-regulate for client protection and social performance, and promote the social value of a holistic approach to poverty eradication. In 2010, MCPI conducted local fora on client protection and on Village and Savings Loan Associations, and also participated in international meetings, the Asia Network Summit and the Global Network Summit, to both promote the network's advocacy agendas and forge linkages and collaboration.

Advocacy is about marketing successes because a good story is the best campaign call, one that brings in warm bodies to support policy reform, one that links clients to markets reinforcing their sound microfinancing practices, one that stacks up evidence to support that there is really value when the double bottom lines – financial and social – of the MCPI network are met. In 2010, MCPI and its partners awarded the Citi Microentrepreneur of the Year to eleven outstanding microentrepreneurs. Now on its eighth year, the awards not only recognized microfinancing efforts, it also provides incentives for microentrepreneurs to improve their production, maximize technology and boost income-generating activities.

MCPI also received the 2010 Social Performance Recognition Certificate from the Consultative Group to Assist the Poor (CGAP) and Microfinance Information Exchange (MIX) for promoting the reporting of Social Indicators among its members. At the end of the day, we ask: why do we live and practice transparency and accountability? Who is it that we fight for?

It need not be a fist in the air or hunger strikes or rotten tomatoes aimed at uniforms or wrinkle-free *barong tagalog.*

BECAUSE POVERTY LINES ARE DRAWN DAILY:



the imperative to capacitate

Some things are built in. Some things are natural. Dionesia de la Pena of Misamis Occidental, a client of Paglaum Multi-Purpose Cooperative, tried to run a sari-sari store but it didn't work out.

"And street peddling was too tiring especially for a mother with kids and housework waiting for her at home. So I approached the co-op for capital. Now with this business, I stay at home and money still comes to me. Without this, my kids would not have been able to go to school."

It is just as necessary, built in and natural for MCPI to invest in capacity building as a key program area for its member-MFIs so that they can serve significant numbers of poorer households with financial and non-financial services. They also need to be kept abreast of the latest technologies, issues and breakthroughs locally and internationally. In 2010, MCPI finalized its training plan based on the result of the members' training needs assessment. The plan serves as input into a capacity building program which will include the development/enhancement of core set of knowledge and skills for MCPI members.

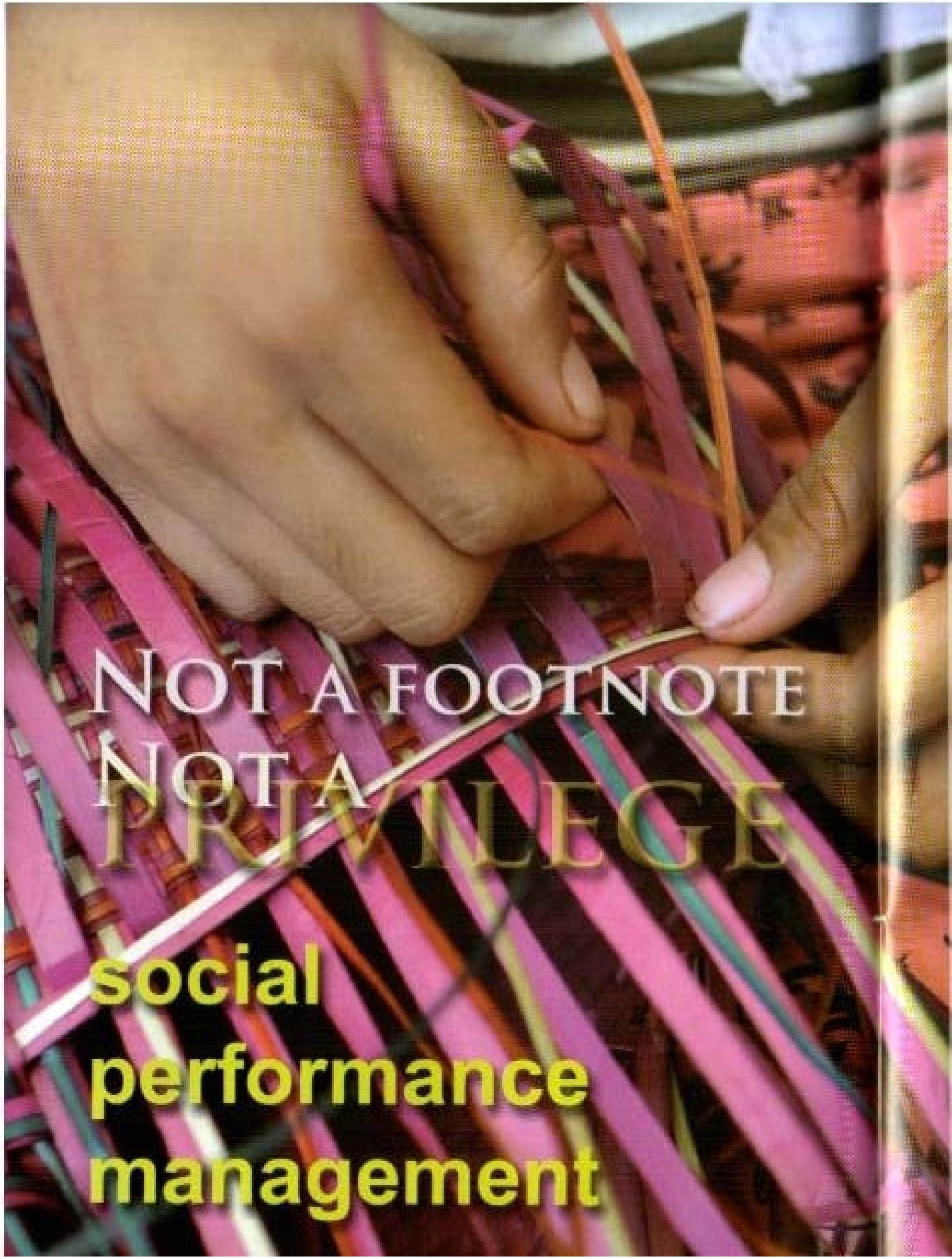
This way, MFIs provide clients like Dionesia de la Pena with responsive products and services allowing them to innovate more, integrate ideas and schemes to take their families out of poverty and then their neighbors, too – one family at a time.

MCPI also completed the microinsurance survey report, emphasizing the need to transform informal microinsurance schemes into legal and formal microinsurance. In response, MCPI conducted a matchmaking forum on microinsurance to connect members with formal providers of microinsurance.

MCPI attended the Global Network Summit serving as link in the learning chain – be updated about the key trends common among countries particularly issues that affect the growth of the microfinance sector worldwide. At the same time, other countries and stakeholders are also informed about the developments in the Philippine microfinance environment.

For many MFIs and clients, it is easy to be complacent and say, I-know, been-there, done-that. But poverty lines are drawn daily and MCPI cannot afford to be complacent.

for whom do you learn?



NOT A FOOTNOTE NOT A PRIVILEGE

social performance management

who do we protect?

If microfinance institutions only committed to a solo bottomline, then client Annabel Bonsol would have just borrowed and borrowed from all lending institutions that marketed membership perks, and get not just one but several of the dreamt-of high-speed sewing machine.

If microfinance was all about capitalization, membership and financial performance of organizations, it did not matter whether she had a business plan or knew how to manage her risks, she would only be significant if her statistic showed that she is not delinquent and got into other financial services without fully reading the fine print.

But Annabel Bonsol is a protected client because her MFI practices social performance management, a key program area of MCPI. Strategies are similar to weaving mats – individual fingers work solo strands interlacing their strengths from within to produce durable and practical products.

For the network in 2010, MCPI conducted a forum and training on Client Protection Principles in Microfinance to deepen the network's understanding that there are appropriate collection techniques, that there is ethics involved in client-provider interaction, and that clients have rights to complain against shoddy treatment. MCPI also conducted a Trainors' Training as well as strategy and planning workshops to strengthen local capacities and give MFIs an active peer support system to adopt social performance management into their overall system and principles.

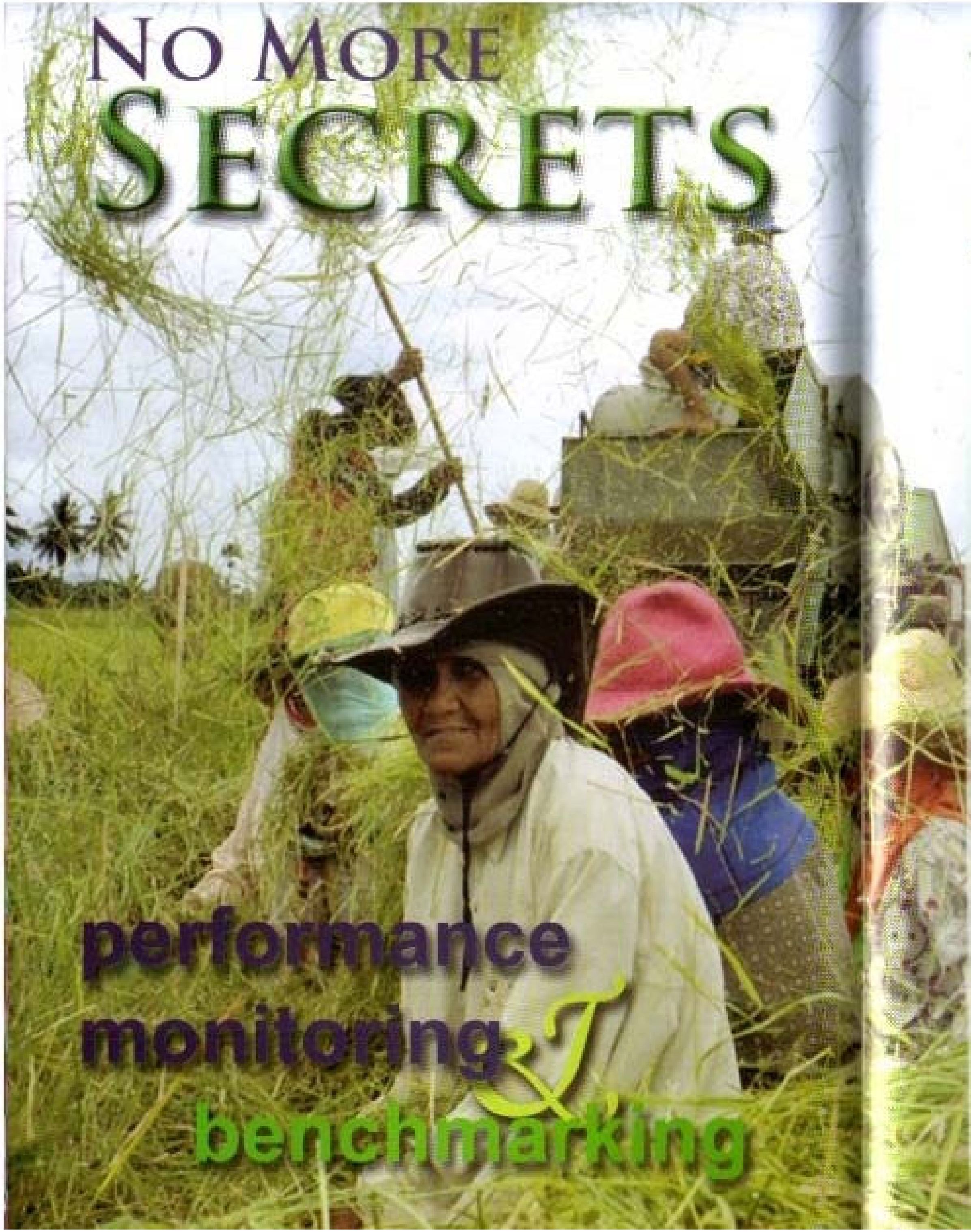
Documentation and monitoring the processes and results are critical. Through Microfinance Information Exchange (MIX), data is collected and made transparent standardizing the social performance indicators for MFIs. Client protection assessments meticulously remind the network about principles of client protection and serve as sounding board for the immediate resolution of issues.

And like weaving mats, care is given to the materials, colors and design to forge a connection to those outside the weaving circle. The network is continually building its body of knowledge and information on SPM practices and tools to practice what it preaches in ensuring transparency – and also to market SPM for those still sitting on fences and unseeing of its mutual benefits. Continued networking with Oikocredit, Grameen Foundation, Imp-Act Consortium, the Social Performance Task Force, the SEEP Network and the Smart Campaign help make MCPI's SPM not just local but part of the global act.

"You should have back-up strategies ready. I started to record my finances so that I can see if I was making money. I learned that it's not just about having money to invest."
--Annabel Bonsol (Client of Bangko Kabayan, MCPI member)

No More Secrets

performance monitoring & benchmarking



"MCPI enables us to develop our social lens and sharpen our focus. The implementation of financial standards enabled ASHI to analyze its operational efficiency. Assistance in reporting to the MIX and MCPI is valuable to ASHI because it allows us to measure our performance with our peers within the country and around the world. This prevents ASHI from being stale because as we share, we learn. As we learn, we improve."
--Mila Mercado-Bunker, President of the Board of Trustees, MCPI and President of Ahon Sa Hirap, Inc. (ASHI)

Time was when microfinance institutions only looked within to police and regulate themselves. Time was when financial statements were well-kept secrets seen only by auditors and Board members. Time was when accountability and adherence to international accounting standards were the sole purview of big commercial banks and financing institutions.

But MCPI members long realized that the transparency of their financial transactions attracted support and more socially-responsible investments. And being at par with global performance standards and benchmarking strengthened internal workings as well.

In 2010, MCPI intensified data collection and reporting to the Microfinance Information Exchange (MIX) to include social performance indicators. Out of the 64 MFIs that submitted financial and operational data to the MIX, 13 members reported their social performance to MCPI and the MIX.

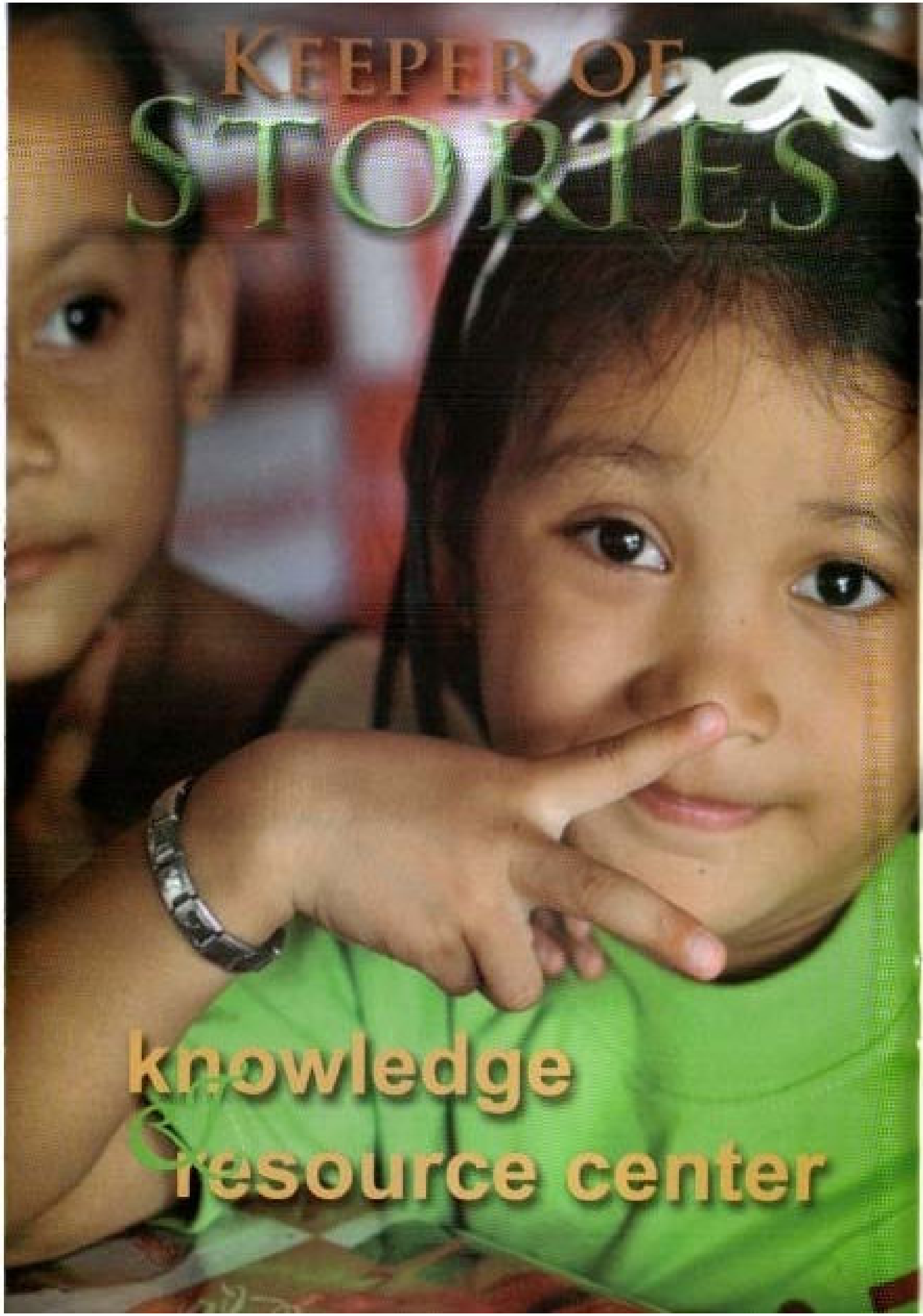
To compare the performances among peer groups of the same characteristics, MCPI encouraged the reporting MFIs to create their own Customized Performance Reports on the MIX Market to help them develop realistic business targets for institutional growth.

MCPI also continued to ally with the Rural Bankers Association of the Philippines-Microenterprise Access to Banking Services (RBAP-MABS) for the benchmarking of rural banks. MCPI's own Performance Monitoring and Benchmarking (PMB) system is being evaluated.

who inspires your excellence?

Keeper of Stories

knowledge & resource center



Every product has its own story. Rice is not just that final staple on the dinner table. The roots know the strength of the knees that waded in muddy waters. The grains know the tired texture of the same hands that also caress a child's cheek. The stalks know the mind that dreams of a life beyond debts.

So, too, does every technical product that MCPI gathers and collects as a knowledge and resource center. The stories are about microfinance best practices and the hands and knees and minds that created them. The stories are about innovations, mappings and product and service developments. And the stories are also about performance reports, issues and customer complaints.

Establishing a knowledge and resource base through MCPI strengthens the legitimacy and credibility of the entire microfinance sector. It is now an industry with a complete history, benchmark data and reports and other reliable information that can be readily accessed. This way, the network can be adequately informed in its strategic planning and direction-setting, and in positioning vis-a-vis policy and political developments that affect MFIs.

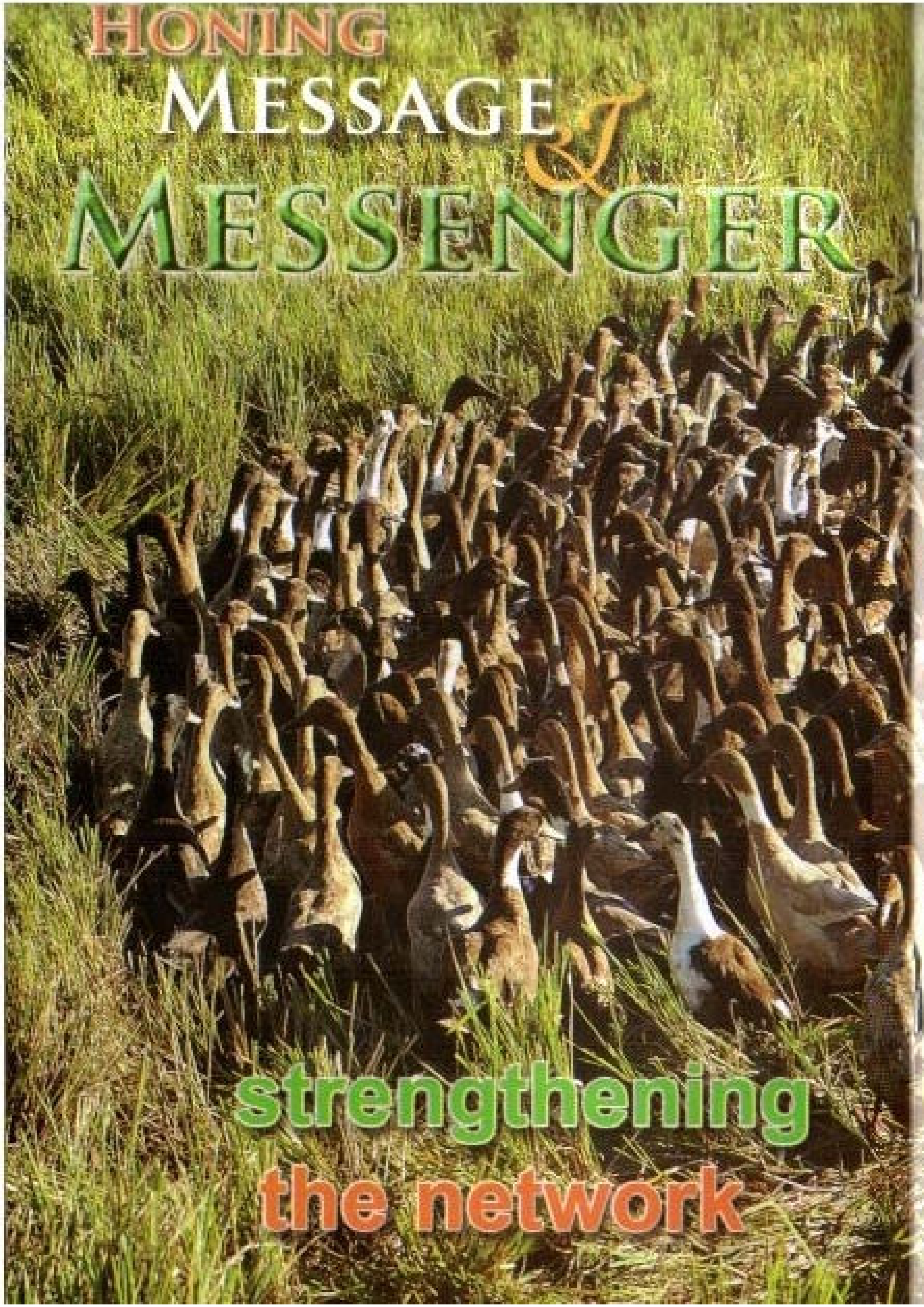
Aside from being keepers of the stories, MCPI also disseminates them in all possible multi-media channels to gain more advocates and leverage. Informing the entire sector also allows that the country, particularly the geographically isolated and depressed areas are mapped and strategically covered to serve more of the poor.

"Namulat sa kahirapan at simpleng buhay, nangarap at naghangad na makaahon sa kahirapan para mabigyan ng magandang kinabukasan ang aking mga anak. Sabi ko 'nun, wala akong alam sa pagpapatakbo ng negosyo at sana magkaroon ako ng adviser. Pakiramdam ko espesyal ako kasi mahahalagang tao ang tumulong sa akin. Ang negosyong paggawa ng peanut butter ay isang pagpapala. Hangad ko na sa paggawa ng mataas na kalidad na produkto, maibahagi ko din ang aking pagpapala sa maraming tao."

–Jennilyn M. Antonio, 2006 Citi Micro-entrepreneur of the Year Awards National Winner, Maunlad Category

to whom do you dedicate your story?

HONING MESSAGE & MESSENGER



strengthening the network

The expectations are high for the messenger with the message.

"As a national network, MCPI can influence the policy-making body of the government when it comes to inclusive finance and it can discipline erring members." is how Rolando B. Victoria, Vice-President of MCPI's Board of Trustees, Microfinance Council of the Philippines, Inc. and Executive Director, Alalay sa Kaunlaran, Inc. sums it.

As a major industry player in microfinance with members that cover 60 to 70% of the total outreach of microfinance institutions in the Philippines, MCPI is perfectly positioned as the image and voice of the industry. Other key program areas sharpen the message, but tactical activities on strengthening the network hones the messenger.

MCPI's new logo and tagline – "Link Against Poverty" – underscores the significance of a strong, credible network with a broad membership base which includes all types of microfinance institutions. The network's communication and advocacy plan sets MCPI as top-of-mind in providing technical products and services and evidenced base positioning on significant industry issues.

Network strengthening also means that the messenger's backbone is solid and secure. This requires the improvement of MCPI's operational systems in terms of capacity assessments, gauging member satisfaction and ensuring continued learning through conferences, peer exchange visits and field study tours.

The message is vital and essential but the messenger is ready.

mcpi

The three-arm logo represents the three main islands of the Philippines: Luzon, Visayas and Mindanao.
The arms are facing out to symbolize "the openness and significance of MCPI's resources to its member microfinance institutions." The arms also create a circle that "signifies the holistic and collaborative approach of the organization's mission of poverty."

who struggles & celebrates with you

REPORT
of independent auditors

KPMG

Manabat Sanagustin & Co.

Report on the Financial Statements

We have audited the accompanying financial statements of Microfinance Council of the Philippines, Inc. (a nonstock, nonprofit organization), which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of receipts and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes, comprising 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 Standard for Small and Medium-sized Entities, 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 auditors' 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 auditors consider 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 Microfinance Council of the Philippines, Inc. as of December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities.

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, duties and license fees 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 information is the responsibility of management. 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 whole.

April 13, 2011
Makati City, Metro Manila

MICROFINANCE COUNCIL OF THE PHILIPPINES, INC.
(A Nonstock, Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2010	2009 (As Restated - see Note 4)
ASSETS			
Current Assets			
Cash and cash equivalents	5	P18,952,483	P24,744,635
Loans receivable	6	-	312,000
Other current assets		30,000	158,767
Total Current Assets		18,982,473	25,215,402
Noncurrent Asset			
Property and equipment - net	7	1,928,274	2,183,783
Total Noncurrent Asset		1,928,274	2,183,783
		P20,910,747	P27,399,185
LIABILITIES AND FUND BALANCE			
Current Liability		P129,040	P602,591
Accrued expenses and other current liabilities			
Noncurrent Liability			
Fund held-in-trust	8	1,913,180	1,913,180
Total Liabilities		2,042,220	2,515,771
Fund Balance			
Operating Fund	9	10,397,204	10,468,487
Restricted grants fund	9	8,471,323	14,414,927
		18,868,527	24,883,414
		P20,910,747	P27,399,185

STATEMENTS OF CASH FLOWS

	Note	December 31 2010	2009 (As Restated – see Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficiency of receipts over expenses		(P6,014,887)	(P2,122,367)
Adjustments for:			
Unrealized foreign exchange loss	5	1,860,814	518,598
Interest income	5	(111,766)	(490,844)
Depreciation	7	255,509	311,039
Deficiency of receipts over expenses before working capital changes		(4,010,330)	(1,783,574)
Decrease (increase) in:			
Loans receivable		312,000	312,000
Other current assets		128,767	(158,767)
Increase (decrease) in:			
Accrued expenses and other current liabilities		(473,551)	458,088
Cash absorbed in operations		(4,043,114)	(1,172,253)
Interest received		111,766	490,844
Net cash used in operating activities		(3,931,348)	(681,409)
CASH FLOWS FROM INVESTING ACTIVITY			
Additions to property and equipment	7	-	(122,257)
CASH FLOW FROM A FINANCING ACTIVITY			
Decrease in fund held-in-trust		-	(714,820)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(1,860,814)	(518,598)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,792,162)	(2,037,084)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		P24,744,635	26,781,719
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	P18,952,473	P24,744,635

STATEMENTS OF RECEIPTS AND EXPENSES

		Years Ended December 31					
		UNRESTRICTED		RESTRICTED		TOTAL	
	Note	2010	2009 (As Restated – See Note 4	2010	2009 (As Restated – See Note 4	2010	2009 (As Restated – See Note 4
RECEIPTS							
Restricted grants	9	P–	P–	P10,769,901	P11,529,995	P10,769,901	P11,529,995
Unrestricted grants	9	879,141	680,282	–	–	879,141	680,282
Interest income	5	111,766	490,844	–	–	111,766	490,844
Others		126,395	2,252,498	–	–	126,395	2,252,498
		1,117,302	3,423,624	10,769,901	11,529,995	11,887,203	14,953,619
EXPENSES							
Project expenses and other charges on restricted grants	9,10	–	–	16,713,505	16,538,527	16,713,505	16,538,527
Charges on unrestricted grants	9	31,541	19,638	–	–	31,541	19,638
General and administrative expenses	11	1,157,044	517,821	–	–	1,157,044	517,821
		1,188,585	537,459	16,713,505	16,538,527	17,902,090	17,075,986
EXCESS (DEFICIENCY) OF RECEIPTS OVER EXPENSES		(71,283)	P2,886,165	(P5,943,604)	P5,008,532)	(P6,014,887)	(P2,122,367)

STATEMENTS OF CHANGES IN FUND BALANCE

	December 31	
	2010	2009 (As Restated – see Note 4)
OPERATING FUND	P10,468,487	P7,582,322
Balance at beginning of year	–	
Excess (deficiency) of receipts over expenses – unrestricted	(71,283)	2,886,165
Balance at end of year	10,397,204	10,468,487
RESTRICTED GRANTS FUND		
Balance at beginning of year, as previously reported	–	–
Transitional effect of adoption of PFRS for SMEs	14,414,927	19,423,459
As restated	14,414,927	19,423,459
Deficiency of receipts over expenses – restricted	(5,943,604)	(5,008,532)
Balance at end of year	8,471,323	14,414,927
	P18,868,527	P24,883,414

NOTES
to the financial statements

1. Reporting Entity

Microfinance Council of the Philippines, Inc. (the "Council"), a nonstock, nonprofit organization, was incorporated on June 28, 1999. It is a network of several microfinance organizations and non-governmental organizations involved in reducing poverty in the Philippines through promotion, advocacy, and development of microenterprise and livelihood programs for the poor.

On March 7, 2006, the Securities and Exchange Commission (SEC) approved the Articles and Plan of Merger executed by and between the Council, the surviving corporation, and Philippine Network for Helping the Hardcore Poor, Inc. (Philnet), the absorbed corporation. As a result and as set forth in the Articles and Plan of Merger, all existing members of the Council and Philnet became members of the surviving corporation. In addition, all of Philnet's assets and liabilities as well as rights and obligations, became assets, liabilities, rights and obligations of the Council.

The Council is exempt from income tax under the provisions of Section 30 (G) of the National Internal Revenue Code (Tax Code) but interest income from deposit with banks is subject to final withholding tax.

The address of the Council's registered office is at Unit 1909, 19th Floor, Jollibee Plaza, Emerald Avenue, Ortigas Center, Pasig City.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs). These are the Council's first financial statements prepared in accordance with PFRS for SMEs and Section 35 Transition to the PFRS for SMEs has been applied.

The Council's financial statements as of and for the year ended December 31, 2010 were approved and authorized for issue by its Executive Director, as designated by the Board of Trustees, on April 11, 2011.

Basis of Measurement

The financial statements have been prepared under historical cost basis of accounting.

Functional and Presentation Currency

These financial statements are presented in Philippine peso, which is also the Council's functional currency and all values are rounded to the nearest peso, unless otherwise indicated.

Use of Estimates and Judgments

The preparation of the financial statements in conformity with PFRS for SMEs 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. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Council, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the cost of conducting projects and activities.

The following estimates have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

Estimating Allowance for Impairment Losses on Loans Receivable

The Council maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible loans receivables. The level of this allowance is evaluated by management

continued from page 11

on the basis of factors that affect the collectibility of the accounts. The Council reviews the status of collections, among others, of these loans receivables, and identifies accounts that are to be provided with allowance on a regular basis.

The carrying amounts of loan receivable are nil in 2010 and P312,000 in 2009 (See Note 6).

Estimating Useful Lives of Property and Equipment

The Council reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, and technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation expense and decrease noncurrent assets.

The carrying amounts of property and equipment are P1,928,274 in 2010 and P2,183,783 in 2009 (See Note 7).

Estimating Allowance for Impairment Losses on Non-financial Assets

The Council assesses at each reporting date whether there is an indication that the carrying amount of non-financial assets such as property and equipment and other current assets may be impaired. If such indication exists, the Council makes an estimate of the asset's recoverable amount. At the reporting date, the Council assesses whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

The Council assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

As of December 31, 2010 and 2009, the Council has no allowance for impairment losses on its non-financial assets (See Note 7).

3. Significant Accounting Policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

Cash and Cash Equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition.

Loans Receivable

Loans receivable is a financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at the transaction price. Subsequent to initial recognition, these loans receivables are measured at amortized cost using the effective interest method, less any impairment losses. At the end of each reporting period, the carrying amounts of loans receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If there is objective evidence of impairment, an impairment loss is recognized immediately in profit or loss.

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 impairment losses, if any. Cost includes expenditure that is 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 Council, 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 profit or loss as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of property and equipment are as follows:

	Number of Years
Office condominium	5
Office improvements	3
Office equipment	3
Office furniture and fixtures	15

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

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 receipts and expenses.

Impairment of Non-financial Assets

The carrying amounts of the Council's non-financial assets such as property and equipment and other current assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or (CGU) is the greater of its value in use and fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 asset's 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.

Payables

Payables are recognized initially at the transaction price including transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Revenue and Expense Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Council and the amount of revenue can be measured reliably.

Project Grants are recognized in the period earned. Interest income is recognized as it accrues using the effective interest method. Other income is recorded when earned.

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Foreign Currency Transactions

Transactions in foreign currencies are recorded in Philippine peso based on the exchange rates prevailing at the dates of the transactions. Foreign currency denominated monetary assets and liabilities are translated into Philippine peso at the exchange rate prevailing at the reporting date. Exchange gains or losses arising from translation and settlements of foreign currency denominated assets and liabilities are recognized in the profit or loss.

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 or common significant influence. Related parties are generally on arm's-length basis in a manner similar to transactions with non-related parties.

Provisions and Contingencies

A provision is recognized if, as a result of a past event, the Council has a present legal or constructive obligation that can be estimated reliably, and it is probable that a transfer of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Council does not recognize a provision for future operating losses.

Contingent liabilities are not recognized as liabilities, except for provisions for contingent liabilities of an acquiree in a business combination, but are disclosed in the financial statements unless the possibility of an outflow of resources is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Events After the End of the Reporting Period

Post year-end events that provide additional information about the Council's position 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 financial statements when material.

4. Explanation of Transition to PFRS for SMEs

As stated in Note 2 to the financial statements, these are the Council's first financial statements prepared in accordance with PFRS for SMEs.

The accounting policies set out in Note 3 have been applied in preparing the financial statements as of and for the year ended December 31, 2010, in the comparative information presented in these financial statements as of and for the year ended December 31, 2009 and in the preparation of an opening PFRS for SMEs statement of financial position at January 1, 2009, the Council's date of transition.

In preparing these financial statements in accordance with PFRS for SMEs, the Council, as a first-time adopter of the PFRS for SMEs has applied all the mandatory exceptions of the PFRS for SMEs.

In preparing its opening PFRS for SMEs statement of financial position, the Council adjusted amounts reported previously in financial statements prepared in accordance with modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles in the Philippines. The transition from financial reporting standards in the Philippines for non-publicly accountable entities to PFRS for SMEs has the following effects on the Council's financial position, financial performance and cash flows.

Reconciliations of Restricted Grant Fund

The following reconciliations show the effect on the Council's Restricted grants fund upon transition from the modified cash basis of accounting (old framework) to the PFRS for SMEs at January 1, 2009 and December 31, 2009:

	As previously reported	Effect of transition to PFRS for SMEs	PFRS for SMEs	As previously reported	Effect of transition to PFRS for SMEs	PFRS for SMEs
	December 31, 2009			January 1, 2009		
ASSETS						
Current Liabilities						
Deferred Grants	P14,414,927	(P14,414,927)	P –	P19,423,459	(P19,423,459)	P –
FUND BALANCE						
Restricted grants fund	P –	P14,414,927	P14,414,927	P19,423,459	P19,423,459	

Reconciliations of Receipts and Expenses

The following reconciliation shows the effect on the Council's receipts and expenses upon transition from the old framework to the PFRS for SMEs for the year ended December 31, 2009 (see table on next page).

Reconciliation of Cash Flows

There are no material differences between the statement of cash flows under the old framework and the statement of cash flows presented under PFRS for SMEs for the year ended December 31, 2009, except for the presentation of the excess (deficiency) of receipts over expenses and movements in deferred grants which cancel out to arrive at the cash absorbed by operations of P1,172,253 under both frameworks.

Notes on the Transition

The transition to PFRS for SMEs resulted to a derecognition of deferred grants treated as a liability in the statement of financial position under modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles in the Philippines.

In 2009 and the previous years, it was the Council's policy that deferred grants be initially recognized as liability upon receipt of fund from grantors supporting certain projects of the Council. Donation income is credited to profit or loss as expenses related to the project are incurred and/or paid.

	As previously reported for SMEs	Effect of transition to PFRS for SMEs	PFRS for SMEs
Statement of Receipts and Expenses			
Receipts			
Restricted grants	P	P11,529,995	P11,529,995
Unrestricted grants		680,282	680,282
Project grants	16,091,798	(16,091,798)	–
	16,091,798	(3,881,521)	12,210,277
Expenses			
Project expenses and other charges on restricted grants	–	16,538,527	16,538,527
Charges on unrestricted grants	–	19,638	19,638
Project expenses	15,431,154	(15,431,154)	–
	15,431,154	1,127,011	16,558,165
Excess (deficiency) of receipts over expenses	P2,886,165	(P5,008,532)	(P2,122,367)

As a consequence of adoption of PFRS for SMEs, the previous treatment of deferred grant as a liability when grant is received is not anymore permitted as the receipt of a grant does not constitute a recognition of a financial liability as defined under Sec 11 Basic Financial Instruments. Grants when received and earned are recognized in profit or loss. Project expenses and charges are recognized in profit or loss when incurred. Accordingly, the unexpended portion of these grants shall be treated as an item of equity under PFRS for SMEs.

5. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	P5,952,473	P21,744,635
Short-term placement	13,000,000	3,000,000
	P18,952,473	P24,744,635

Cash in banks earns interest at prevailing bank deposit rates and are immediately available for use in current operations.

Short-term placement pertains to peso time deposit in the form of Bangko Sentral ng Pilipinas Special Deposit Account placement (BSP SDA) having a maturity of one (1) month and yielding an interest ranging from 4% to 5% per annum in 2010 and 2009, respectively. This is administered by a local bank, with principal and interest guaranteed by the BSP.

Interest income earned from the cash and cash equivalents amounted to P111,766 in 2010 and P490,844 in 2009.

Unrealized foreign exchange loss amounted to P1,860,814 in 2010 and P518,598 in 2009.

6. Loans Receivable

On July 1, 2006, the Council granted loans to Bukidnon Integrated Network of Home Industries, Inc. (BINHI), and KAZAMA Grameen Inc. amounting to P467,000 each. These loans have matured on June 30, 2010. Originally, term loans are collectible in yearly installments beginning June 30, 2008 with interest rate at 4% per annum.

7. Property and Equipment

The movements and balances of this account as of and for the years ended December 31, 2009 and 2008 consist of:

	Office Condominium	Office Improvements	Office Equipment	Office Furniture and Fixtures	Total
Cost:					
January 1, 2009	P2,975,000	P80,675	P522,299	P62,782	P3,640,756
Additions	–	–	64,900	57,357	122,257
December 31, 2009	2,975,000	80,675	587,199	120,139	3,763,013
Additions	–	–	–	–	
December 31, 2010	2,975,000	80,675	587,199	120,139	3,763,013
Accumulated depreciation:					
January 1, 2009	710,696	80,675	414,038	62,782	1,268,191
Depreciation	198,334		101,553	11,152	311,039
December 31, 2009	909,030	80,675	515,591	73,934	1,579,230
Depreciation	198,336	–	38,057	19,116	255,509
December 31, 2010	1,107,366	80,675	553,648	93,050	1,834,739
Carrying amounts:					
December 31, 2009	2,067,970	P –	P71,608	P46,205	P2,183,783
December 31, 2010	P1,867,634	P –	P33,551	P27,809	P1,928,274

8. Fund Held-In-Trust

As a result of the merger between Philnet and the Council on March 7, 2006, excess funds amounting to P2,628,000 in the books of Philnet were transferred to the Council. The membership of Philnet agreed to allocate this amount as a loan fund facility to be made available to six (6) former members of Philnet, namely BINHI; KAZAMA Grameen Inc.; Mindanao Enterprise Development Council, Inc.; Visayas Enterprise Council, Inc.; Philippine Microenterprise Development Council, Inc.; and Serviamus Council, Inc.

On September 15, 2009, the Board of Trustees approved the use of fund held-in-trust for the cost of airfare of the Council's President when he attended Small Enterprise, Education and Promotion (SEEP) in Arlington, Virginia. On July 13, 2009, the Board of Trustees approved the goodwill payment worth P500,000 to the Council's former Consultant/Executive Director using the fund held-in-trust in consideration of his long service and in acknowledgement of the value he has contributed during his stint in the Council.

9. Grants

Unrestricted Grants

This pertaints to grants received, the utilization of which are not restricted as to specific project, activity or purpose. In 2010 and 2009, this represents grants from SEEP and Russian MFC. Total receipts of unrestricted grants amounted to P879,141 in 2010 and P680,282 in 2009. While total expenses attributed to these unrestricted grants amounted to P31,541 in 2010 and P19,638 in 2009.

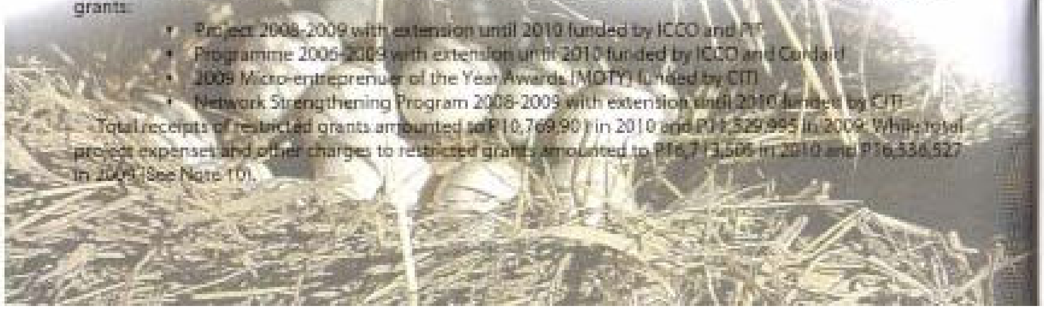
Restricted Grants

Restricted grants represent donations granted by the Interchurch Organization for Development Cooperation (ICCO) and the Catholic Organization for Relief and Development Aid (CORDAID), Product Innovation Fund (PIF) and Citi Council (CITI) for the implementation of their funded programs.

In 2010 and 2009, the following programs and projects were conducted out of the Council's restricted grants:

- Project 2008-2009 with extension until 2010 funded by ICCO and PIF
- Programme 2006-2009 with extension until 2010 funded by ICCO and Cordaid
- 2009 Micro-entreprenuer of the Year Awards (MOTY) funded by CITI
- Network Strengthening Program 2008-2009 with extension until 2010 funded by CITI

Total receipts of restricted grants amounted to P10,769,901 in 2010 and P11,529,995 in 2009. While total project expenses and other charges to restricted grants amounted to P16,713,505 in 2010 and P16,538,527 in 2009 (See Note 10).



10. Project Expenses and Other Charges on Restricted Grants

This account consists of:

	Note	2010	2009
Project management		P8,034,366	P5,089,690
Meetings and conferences		4,362,457	7,104,887
Salaries	12	1,848,332	2,465,520
Awards and prizes		1,424,740	1,112,690
Professional fees		290,578	261,105
Utilities		148,200	154,218
Communication		143,993	153,910
Office supplies		90,195	76,071
Transportation and travel		42,002	31,503
Miscellaneous		328,642	88,933
	9	P16,713,505	P16,538,527

11. General and Administrative Expenses

This account consists of:

	Note	2010	2009
Staff salaries		P695,761	P –
Depreciation	7	255,509	311,039
Professional fees		157,866	–
Publication		--	206,000
Others		47,908	782
		P1,157,044	P517,821

The Council is committed to be self sustainable beginning 2010. Accordingly, certain expenses such as salaries of administative staff, professional fees and other expenses, previously classified as project costs, are classified to general and adminstrative expenses and charged directly to operating fund.

12. Related Party Transactions

Key Management Compensation

Directors are generally paid relative to their specific involvements to the projects. Salaries and other short term benefits presented under "Salaries" account in Project expenses and other charges on restricted grants amounted to P 1,700,527 in 2010 and P2,371,222 in 2009 (See Note 10).

13. Classification of Financial Instruments

The Council's financial instruments are categorized as follows:

	Note	2010	2009 (As Restated – see Note 4)
Financial Assets			
Cash and cash equivalents	5	P18,952,473	P24,744,635
Financial assets at amortized cost	6	--	312,000
		P18,952,473	P25,056,635
Financial liability at amortized cost	10	P2,042,220	P2,515,771

14. Supplementary Information Required Under RR 15-2010 of the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulations (RR) 15-2010, Amending Certain Provisions of Revenue Regulations No. 21-2002, as Amended, Implementing Section 6 (H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of

Financial Statements Accompanying Income Tax Returns. Under the said RR, companies are required to provide, in addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year. The following is the tax information required under RR 15-2010 for the year ended December 31, 2010.

A. Value Added Tax (VAT)

The Council is a non VAT taxpayer. Consequently, donation and grants were not subjected to Output VAT. Purchases of goods and services were treated as expenses in full as no Input VAT were recognized.

B. Withholding Taxes

Tax on compensation and benefits	P565,667
Creditable withholding taxes	131,520
	P697,187

C. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and licenses" account under Project expenses and other charges and General and Administrative expenses	
Real estate taxes	P11,175
License, permit fees and others	16,318
	P27,493

D. Deficiency Tax assessments and Tax Cases

As of December 31, 2010, the Council has no pending tax court cases and has not received any tax assessment notice from the BIR.

people who lack the necessary wherewithal and financial connections. Responsible finance entails that we undertake our operations with prudence and due diligence; it also entails that we treat our clients with extraordinary decency and love. After all, the business of an MFI is not sufficiently described when one merely says that it is supposed to lend money and to assist micro-entrepreneurs. It is supposed to lend money in the most socially responsible manner and create viable and sustainable enterprises.

We cannot bear to sit idly by as we witness the dashing of hopes and the perpetuation of wasted opportunities. That's why we, the members of MCPI, will continually contribute our humble verses to the betterment of our people's welfare. Our vision is clear—to become a world-class national network of microfinance institutions advocating sustainable, innovative, and client-responsive solutions to poverty in the Philippines. Individually and collectively, we shall advocate the eradication of poverty in the Philippines by providing ethical and inclusive financial and non-financial services; advance the capacity of members to serve poor households in a sustainable, innovative, and client-responsive manner; and achieve the highest global standards of excellence in governance, stewardship, and service towards staff, clients and communities served. As we embody our reason for being as the link against poverty, MCPI shall endeavor to become the country's beacon through the fog of poverty and helplessness—ever beaming, encompassing, unsullied, and bright.

We are the microfinance council

Regular Members

1. Aakay ang MILAMDEC Microfinance Foundation, Inc.
2. ABS-CBN Bayan Foundation, Inc.
3. Agricultural & Rural Development for Catanduanes, Inc.
4. Ahon Sa Hirap, Inc.
5. Alalay Sa Kaunlaran, Inc.
6. Bangko Kabayan
7. Bukidnon Integrated Network of Home Industries, Inc.
8. Cantilan Bank, Inc.
9. Cebu Micro Enterprise Development Foundation, Inc.
10. Center for Agriculture & Rural Development, Inc.
11. CCT Credit Cooperative
12. Community Economic Ventures, Inc.
13. ECLOF Philippines
14. First Isabela Cooperative Bank
15. FCB Foundation, Inc.
16. Fundacion Santiago
17. GM Bank, Inc.
18. Jaime V. Ongpin Foundation, Inc.
19. Kabalikat para sa Maunlad na Buhay, Inc.
20. Kasagana-ka Development Center, Inc.
21. KAZAMA Grameen
22. KFI Center for Community Development Foundation, Inc.
23. Mallig Plains Rural Bank, Inc.
24. Mentors Philippines Microfinance Foundation, Inc.
25. Negros Women for Tomorrow Foundation, Inc.
26. New Rural Bank of San Leonardo
27. Notre Dame Business Resource Center Foundation, Inc.
28. Opportunity Kauswagan Bank
29. Paglaum Multi-Purpose Cooperative
30. People's Alternative Livelihood Foundation of Sorsogon, Inc.
31. People's Bank of Caraga
32. Producers Savings Bank Corporation
33. Rural Bank of Pres. M. A. Roxas (Zamboanga del Norte), Inc.
34. Rural Bank of Talisayan (Misamis Oriental), Inc.
35. Serviamus Foundation, Inc.
36. Taytay Sa Kauswagan, Inc.
37. TSPI Development Corporation

Associate Members

1. Alliance of Philippine Partners in Enterprise Development
2. ChildFund Philippines
3. Federation of Peoples Sustainable Development Cooperative
4. National Confederation of Cooperatives
5. Plan Philippines
6. Punla Sa Tao Foundation, Inc.
7. SEEDFINANCE Corporation
8. Smart Communications, Inc.

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