Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc.

(A Nonstock, Not-for-Profit Association)

Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

A1999-15750

SEC Registration Number

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC. (A Nonstock, Not-for-Profit Association)

(Company's Full Name)

Colago Avenue, Barangay, 1-A San Pablo City, Laguna

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

May S. Dawat

(Contact Person)

(049) 562-2878

(Company Telephone Number)

1 2	3 1		A A F S		0 9	0 9
Month	*Day*		(Form Type)		*Month*	*Day*
(Fiscal Year)					(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.

SGVMC116645

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Center for Agriculture and Rural Development (CARD)
Mutual Benefit Association, Inc.
Colago Avenue, Barangay 1-A
San Pablo City, Laguna

Report on the Financial Statements

We have audited the accompanying financial statements of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc., (a nonstock, not-for-profit association) which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of income, statements of comprehensive income, statements of changes in fund balance 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 opinion.

SGVMC116645

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. as at December 31, 2011 and 2010, 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 19-2011 and 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 required under Revenue Regulations 19-2011 and 15-2010 in Notes 25 and 26 to the financial statements, respectively, 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 Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, 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.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-1 (Group A),
March 11, 2011, valid until March 10, 2014
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174824, January 2, 2012, Makati City

March 10, 2012

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Center for Agriculture and Rural Development (CARD)
Mutual Benefit Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc., (a nonstock, not-for-profit association) which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of income, statements of comprehensive income, statements of changes in fund balance 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. as at December 31, 2011 and 2010, 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 19-2011 and 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 required under Revenue Regulations 19-2011 and 15-2010 in Notes 25 and 26 to the financial statements, respectively, 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 Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, 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.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-1 (Group A),
March 11, 2011, valid until March 10, 2014
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174824, January 2, 2012, Makati City

March 10, 2012

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February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN

The Board of Trustees
Center for Agriculture and Rural Development (CARD)
Mutual Benefit Association, Inc.
Colago Avenue, Barangay 1-A
San Pablo City, Laguna

We have audited the financial statements of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. (the Association) for the year ended December 31, 2011, on which we have rendered the attached report dated March 10, 2012.

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 Association.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-1
Tax Identification No. 160-302-865
BIR Accreditation No. 008-001998-73-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641561, January 3, 2011, Makati City

March 10, 2012

SGVMC116645

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Cash and Cash Equivalents (Notes 6, 19 and 21)	**₱224,701,716**	₱432,382,413
Time Deposits (Notes 7, 19 and 21)	**86,625,758**	106,210,767
Receivables (Notes 8, 19 and 21)	**106,655,969**	88,555,892
Financial Assets at Fair Value through Profit or Loss (Notes 9 and 21)	**20,480,000**	–
Available-for-Sale Financial Assets (Notes 10 and 21)	**330,449,702**	153,787,804
Held-to-Maturity Investments (Notes 11 and 21)	**2,686,092,607**	1,777,192,774
Property and Equipment (Note 12)	**30,755,853**	11,664,200
Investment in Associates and Deposits (Notes 13)	**20,419,847**	3,179,141
Guaranty Fund and Other Assets (Notes 14, 21 and 23)	**136,185,641**	89,269,947
Pension Asset - net (Notes 19 and 20)	**1,311,845**	2,975,145
	₱3,643,678,938	₱2,665,218,083
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable and accrued expenses (Notes 15, 19 and 21)	**₱71,424,922**	₱29,856,494
Aggregate reserves (Note 16)	**1,748,838,031**	1,239,219,990
Retirement savings fund (Note 17)	**963,749,991**	712,194,365
Total Liabilities	**2,784,012,944**	1,981,270,849
Fund Balance		
Appropriated fund balance (Notes 11, 14 and 23)	**170,995,819**	126,899,923
Other comprehensive income (Note 10)	**36,560,533**	21,898,635
Unappropriated fund balance	**652,109,642**	535,148,676
Total Fund Balance	**859,665,994**	683,947,234
	₱3,643,678,938	₱2,665,218,083

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF INCOME

	Years Ended December 31	
	2011	2010
REVENUE		
Gross earned premiums on insurance contracts	**₱1,082,933,160**	₱845,957,749
Interest income - net of final tax (Notes 6, 7, 8, 11 and 14)	**94,748,930**	89,251,599
Contribution income - AKAP	**16,050,071**	7,775,261
Equity in net earnings in affiliate (Note 13)	**3,340,706**	1,679,141
Fair value gains from financial assets at fair value through profit or loss (Note 9)	**480,000**	–
Others	**458,672**	2,571,951
Other revenue	**115,078,379**	101,277,952
TOTAL REVENUE	**1,198,011,539**	947,235,701
COSTS AND OPERATING EXPENSES		
Increase in aggregate reserves (Note 16)	**509,618,041**	406,600,501
Gross claims	**268,522,985**	164,867,366
AKAP healthcare benefits	**43,318,761**	16,847,406
Net insurance claims and reserves	**821,459,787**	588,315,273
Transportation and travel (Note 19)	**57,965,735**	45,600,277
Donation and contribution	**50,663,732**	25,060,074
Salaries and allowances (Note 19)	**26,670,662**	19,306,125
Program, monitoring and evaluation	**13,257,644**	9,027,786
Provision for impairment losses (Note 8)	**10,181,653**	2,766,175
Supplies	**8,533,913**	7,774,537
Training and development	**3,543,129**	4,419,149
Meetings and seminars	**3,083,170**	2,595,642
Depreciation (Note 12)	**2,753,822**	1,954,697
Insurance	**1,406,443**	982,395
Others (Note 18)	**37,434,987**	15,504,244
Operating expenses	**215,494,890**	134,991,101
TOTAL COST AND OPERATING EXPENSES	**1,036,954,677**	723,306,374
EXCESS OF REVENUE OVER EXPENSES	**₱161,056,862**	₱223,929,327

See accompanying Notes to Financial Statements.

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CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION
(A Nonstock, Not-for-Profit Association)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
EXCESS OF REVENUE OVER EXPENSES	**₱161,056,862**	₱223,929,327
OTHER COMPREHENSIVE INCOME		
Changes in fair value of available-for-sale financial assets (Note 10)	**14,661,898**	13,249,780
TOTAL COMPREHENSIVE INCOME	**₱175,718,760**	₱237,179,107

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION

(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

	Appropriated Fund Balance (Notes 14 and 23)	**Unappropriated Fund Balance**	**Reserve for Fluctuation in Value of Available-for-Sale Financial Assets** (Note 10)	**Total**
As of January 1, 2011	**₱126,899,923**	**₱535,148,676**	**₱21,898,635**	**₱683,947,234**
Appropriation during the year (Notes 11, 14 and 23)	**44,095,896**	**(44,095,896)**	**–**	**–**
Excess of revenue over expenses	**–**	**161,056,862**	**–**	**161,056,862**
Other comprehensive income (Note 10)	**–**	**–**	**14,661,898**	**14,661,898**
Total comprehensive income	**–**	**161,056,862**	**14,661,898**	**175,718,760**
Balance at December 31, 2011	**₱170,995,819**	**₱652,109,642**	**₱36,560,533**	**₱859,665,994**
As of January 1, 2010	₱57,409,271	₱380,710,001	₱8,648,855	₱446,768,127
Appropriation during the year (Notes 11, 14 and 23)	69,490,652	(69,490,652)	–	–
Excess of revenue over expenses	–	223,929,327	–	223,929,327
Other comprehensive income (Note 10)	–	–	13,249,780	13,249,780
Total comprehensive income	–	223,929,327	13,249,780	237,179,107
Balance at December 31, 2010	₱126,899,923	₱535,148,676	₱21,898,635	₱683,947,234

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.

(A Nonstock, Not-for-Profit Association)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	**₱161,056,862**	₱223,929,327
Adjustments for:		
Increase in aggregate reserves (Note 16)	**509,618,041**	406,600,501
Provision for impairment losses (Note 8)	**10,181,653**	2,766,175
Depreciation (Note 12)	**2,753,822**	1,954,697
Fair value gains from financial assets at fair value through profit or loss (Note 9)	**(480,000)**	–
Equity in net earnings of an associate (Note 13)	**(3,340,706)**	(1,679,141)
Discount amortization (Note 11)	**(18,568,304)**	(4,815,921)
Interest income	**(76,180,626)**	(84,435,678)
Cash generated from operations before changes in working capital	**585,040,742**	544,319,960
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Pension asset - net	**1,663,300**	(690,546)
Receivables	**7,029,565**	21,430,651
Increase in:		
Retirement savings fund	**251,555,626**	217,143,755
Accounts payable and accrued expenses	**41,568,428**	5,009,903
Net cash provided by operating activities	**886,857,661**	787,213,723
CASH FLOWS FROM INVESTING ACTIVITIES		
Additional investments in:		
Investment in associates and deposits (Note 13)	**(13,900,000)**	(1,500,000)
Financial assets at fair value through profit or loss (Note 9)	**(20,000,000)**	–
AFS financial assets (Note 10)	**(162,000,000)**	(65,650,392)
Time-deposits	**(223,791,703)**	(225,391,375)
HTM investments (Note 11)	**(1,062,054,737)**	(815,196,627)
Loans receivable (Note 8)	**–**	(30,000,000)
Proceeds from:		
Time-deposits	**243,376,712**	221,375,412
Maturities of HTM investments (Note 11)	**127,627,312**	420,189,281
Interest received	**40,869,331**	46,432,552
Decrease in other assets	**(2,819,798)**	(2,639,954)
Acquisitions of property and equipment (Note 12)	**(21,845,475)**	(3,888,319)
Net cash used in investing activities	**(1,094,538,358)**	(456,269,422)

(Forward)

	Years Ended December 31	
	2011	2010
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱207,680,697)**	₱330,944,301
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**432,382,413**	101,438,112
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱224,701,716**	₱432,382,413

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.
(A Nonstock, Not-for-Profit Association)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. (the Association) was registered with the Securities and Exchange Commission (SEC) as a nonstock, not-for-profit association on October 29, 1999. It was granted a license by the Insurance Commission (IC) on May 22, 2001 to engage as a mutual benefit association that extends benefits and services for the welfare and financial security of its members and their families in the form of death benefits, medical subsidy, pension and loan redemption assistance and ensuring continued access to benefits and resources. The Association actively involves the members in the direct management of the Association including the implementation of policies and procedures geared towards sustainability and improved services.

As a nonstock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue.

The registered office address of the Association is located at Colago Avenue, Barangay 1-A, San Pablo City, Laguna.

2. Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Association's functional currency. Amounts are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance
The financial statements of the Association have been prepared for submission to SEC and Bureau of Internal Revenue, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) that are discussed below. Except as otherwise indicated, the adoption of the new and amended PFRS and Philippine Interpretations did not have any effect on the financial statements of the Association.

- Amendment to Philippine Accounting Standards (PAS) 24, *Related Party Disclosures* (effective for annual periods beginning on or after January 1, 2011)
  This amended Standard clarified the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

  In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues* (effective for annual periods beginning on or after February 1, 2010)
  The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after January 1, 2011)
  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

Improvements to PFRSs (issued 2010)
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Association.

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments - Disclosures*
- PAS 1, *Presentation of Financial Statements*

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Association:

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Association:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Future Changes in Accounting Policies
The Association will adopt the following new and amended PFRS and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the following new and amended PFRS and Philippine Interpretations will not have significant impact on the financial statements of the Association:

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures* (Amendments) - *Enhanced Derecognition Disclosure Requirements* (effective for annual periods beginning on or after July 1, 2011)
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Association's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- Amendments to PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after January 1, 2012)
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying value amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets are measured using revaluation model in PAS 16 always be measured on a sale basis of the asset.

Effective in 2013

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

c) The net amounts presented in the statement of financial position;
d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- PFRS 12, *Disclosures of Involvement with Other Entities* (effective for annual periods beginning periods on or after January 1, 2013)
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or before January 1, 2013)
  PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

- PAS 1, *Financial Statements Presentation - Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Association's financial position or performance.

- Amendments to PAS 19, *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Association is currently assessing the impact of the amendment to PAS 19.

- Revised PAS 27, *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- Revised PAS 28, *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)
  This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Association's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors which should be

applied retroactively and prospectively. 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.

4. Summary of Significant Accounting Policies

Use of Judgments Estimates and Assumptions

The preparation of the financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates. For further information on critical judgments, estimates and assumptions, refer to Note 5.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of changes in value.

Financial Instruments

Date of recognition

Financial instruments are recognized in the statement of assets, liabilities and fund balance when the Association becomes a party to the contractual provisions of the instrument. 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 the settlement date.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments valued at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

The Association classifies its financial assets in the following categories: HTM investments, loans and receivables and AFS financial assets. 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 financial assets at initial recognition and re-evaluates this designation at every reporting date.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask 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. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant revaluation models.

Day 1 profit
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 Association recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of revenue and expenses. 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 income when the inputs become observable or when the instrument is derecognized. For each transaction, the Association determines the appropriate method of recognizing the Day 1 profit amount.

Financial assets or financial liabilities at FVPL
This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are also classified under this category.

Financial assets or financial liabilities at FVPL are recorded in the Association's statement of financial position at fair value, with changes in fair value being recorded under "Fair value gains from financial assets at FVPL" account in the association statement of income.

Financial assets or financial liabilities are classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

HTM investments
HTM investments are non-derivative financial assets that comprise fixed or determinable income securities of which the Association has the positive intension and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the effective interest rate (EIR) method. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums and

discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process. These investments represent debt securities where the Association has the positive intent and financial capability to hold to maturity.

Receivables
Receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the association has no intention of trading. Receivables are carried at amortized cost using the EIR method, reduced by unearned discounts, capitalized interest on restructured loans and allowance for impairment losses. Gains and losses are recognized in the statement of income when the receivables are derecognized or impaired based on comparison with fair value.

AFS financial assets
AFS financial assets are those investments which are designated as such or do not qualify to be classified as designated as at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. Interest earned on holding AFS financial assets are reported as interest income using the EIR. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as “Reserve for fluctuation in value of AFS financial assets” (net of tax, where applicable) in the other comprehensive income in the fund balance section of the Association’s statement of financial position. When the security is disposed of, the cumulative gains or losses previously recognized in equity is recognized in the Association’s statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses. Dividends earned on holding AFS financial assets are recognized in the Association’s statement of income when the right of payment has been established.

The losses arising from impairment of such investments are recognized as “Impairment losses” included under “General and administrative expenses” in the Association’s statement of income.

AFS financial assets are non-derivative financial assets that are designated as such or do not qualify to be classified as financial asset at FVPL, HTM investments or loans and receivables. These investments are initially recorded at cost, being the fair value of the consideration paid for the acquisition of the investment, excluding all transaction costs directly attributable to the acquisition. After initial recognition, these investments are measured at fair value. Unrealized gains and losses are reported as a separate component of statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in fund balance is transferred to the statement of income.

As of December 31, 2011 and 2010, AFS financial assets include investment in mutual fund companies and equity investment in preferred shares in CARD Bank, Inc., which is not considered as an investment in associate. Investment in mutual fund companies is initially recorded at fair value and revalued at year end in reference to published bid-values. The investment in preferred shares is initially recorded at cost, being the fair value of the investment at the time of acquisition. Such investment is carried at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Association 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, other financial liabilities 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.

This accounting policy applies primarily to the Association's accounts payable and accrued expenses, retirement savings fund and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liability).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Association; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

If the Association does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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.

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

- the rights to receive cash flows from the asset have expired;
- the Association retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through'

arrangement; or

- the Association 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Association has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Association'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 the carrying amount of the asset and the maximum amount of consideration that the Association could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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 Association's statement of income.

<u>Impairment of Financial Assets</u>
An assessment is made at each reporting date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Association first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, 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 income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
If an AFS financial assets is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of assets, liabilities and fund balance 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.

Deferred Acquisition Costs (DAC)
Commissions and other acquisition costs incurred during the financial period that vary with and are related to securing new healthcare plan contracts and/or renewing of existing healthcare plan contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other costs are recognized as expense when incurred.

Subsequent to initial recognition, these costs are amortized on a straight-line basis over the life of the contract. Amortization is charged to the statement of income. The unamortized acquisition costs are shown as DAC in the Assets Section of the statement of revenue of assets, liabilities and fund balance.

An impairment review is performed at each reporting date or more frequently when an indication of impairment occurs. The carrying value is written down to recoverable amount. The impairment loss is charged to the statement of income.

Investment in Associate and Deposits
Investments in CARD MRI Information Technology, Inc. (CMIT) and BotiCARD, Inc., associates, are accounted for under the equity method of accounting. An associate is an entity in which the Association has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in associate is carried in the statement of financial position at cost plus post-acquisition changes in the Association's share in the net assets of the investee. The statement of income reflects the Association's share of the results of the operations of the investee. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Association's interest therein. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction in the carrying value of the investment.

Property and Equipment

Property and equipment, except for land, is stated at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its purchase price, including taxes and directly attributable cost to bring the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the assets as follows:

	Years
Building	10-15
Transportation equipment	5
Computer and office equipment	3
Office furniture and fixtures	3

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

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statement of revenue and expenses.

Impairment of Nonfinancial Assets

At each reporting date, the Association assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Association makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's (CGU)) fair value less costs 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 CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) 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 (or CGU).

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.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.
A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fund Balance
Fund balance represents accumulated excess of revenue over expenses.

Revenue Recognition
The Association assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Association has concluded that it is acting as principal and agent in its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

Premiums revenue
Premiums are recognized as earned when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Contribution income - AKAP
Contribution income - AKAP from healthcare agreements, which is one (1) year period and where the Association assumes the risk of funding the member's healthcare services and related administrative costs, are recognized as revenue over the period of agreement.

Interest income
Interest on interest-bearing placements and securities are recognized based on the accrual accounting using the EIR method.

Insurance Contract Liabilities
Life insurance contract liabilities
Life insurance liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

Liability adequacy test
Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the statement of income initially by establishing a provision for losses arising from the liability adequacy tests.

Claim Costs
Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are based on the estimated ultimate cost of settling the claims. The

method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period when the estimates are changed or payments are made.

Operating Expenses
Operating expenses constitute cost of administering the business. These expenses are recognized as expense when incurred.

AKAP Healthcare Benefits
AKAP healthcare benefits and claims include all claims incurred, including estimates of medical care services that have been rendered on behalf of the members but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes.

Retirement Cost
The Association is covered by a noncontributory defined benefit retirement plan.

The Association's retirement cost is determined using the projected unit credit (PUC) method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The asset recognized in the statement of assets, liabilities and fund balance, in respect of defined benefit pension plan, is the fair value of the plan assets at the reporting date less the present value of defined benefit obligation, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the PUC method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability or applying a single weighted average discount rate that reflects the estimated timing and amounts of benefit payments. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to or credited against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded the greater of the 10.00% of defined benefit obligation or the 10.00% of the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is the present value of any units of future benefits credited to employees for services in periods prior to the commencement or subsequent amendment of the plan. This is recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortized on a straight-line basis over the vesting period.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific 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 an 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 any of the scenarios above, and at the renewal or extension period for the second scenario.

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 income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 assessment 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. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Association to make estimates and assumptions 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 assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments 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

Product classification

The Association has determined that the insurance policies it issues have significant insurance risk and therefore meet the definition of an insurance contract and should be accounted for as such.

Classification of HTM investments

The Association classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Association evaluates its intention and ability to hold such investments to maturity. If the Association fails to keep these investments to maturity other than in certain specific circumstances, the Association will be required to reclassify the entire portfolio as AFS financial assets and to measure these at fair value and not at amortized cost. The Association has HTM investments amounting to ₱2,686.09 million and ₱1,777.19 million as of December 31, 2011 and 2010, respectively (Note 11). As of December 31, 2011 and 2010, the fair market value of HTM investments amounted to ₱2,880.25 million and ₱1,960.18 million, respectively (Note 11).

Classification of financial assets not quoted in an active market

The Association classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. The carrying values of AFS financial assets not quoted in an active market amounted to ₱127.50 million and ₱67.50 million as of December 31, 2011 and 2010, respectively (Note 10).

Fair value of financial instruments

The Association carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit and loss and equity. The following are the details of financial instruments carried at fair value:

	2011	2010
Financial assets		
Financial assets at FVPL (Note 9)	**₱20,480,000**	₱–
AFS financial assets (Note 10)	**330,449,702**	153,787,804

The fair values of the Association's financial instruments follow (Note 21):

	2011	2010
Financial assets	**₱3,785,976,389**	₱2,831,784,692
Financial liabilities	**71,424,922**	29,856,494

Allocation of interest income for retirement savings fund
Actual interest income earned from investments on life insurance premiums, loan redemption and retirement savings fund account is initially distributed based on a 25:25:50 ratio. The interest income allocated to the retirement savings fund is adjusted at year end to conform with the amount as determined by the actuary.

Estimates
Impairment of nonfinancial assets
The Association 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 association 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 Association recognizes an impairment loss whenever the carrying amount of the asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

For the years ended December 31, 2011 and 2010, no impairment loss has been recognized for the Association's property and equipment.

The related balances of the Association's nonfinancial assets follow (Note 12):

	2011	2010
Property and equipment	**₱30,755,853**	₱11,664,200
Accumulated depreciation	**8,245,568**	7,285,406
Depreciation	**2,753,822**	1,954,697

Impairment losses of receivables
The Association reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Association makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Total receivables net of allowance for impairment losses amounted to ₱106.66 million and ₱88.56 million as of December 31, 2011 and 2010, respectively (Note 8). Allowance for impairment losses amounted to ₱3.49 million ₱6.01 million as of December 31, 2011 and 2010, respectively (Note 8).

Impairment of AFS financial assets
The Association determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Association evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As of December 31, 2011 and 2010, the fair market value of AFS financial assets amounted to ₱330.45 million ₱153.79 million, respectively (Note 10).

Retirement and other employee benefits
The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the Association’s assumptions, subject to the 10.00% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

While the Association believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

As of December 31, 2011 and 2010, the Association has unrecognized net actuarial losses amounting to ₱15.12 million ₱5.30 million, respectively (Note 20).

Provision for reserves
The estimation of ultimate liability arising from claims made under life insurance contracts is the Association’s most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Association will ultimately pay for such claims. Previous experience and trends are fundamentally considered in determining the liability. In determining the provision for reserves, estimates are made as to the expected number of deaths, illness or injury for each of the years in which the Association is exposed to risk. These estimates are based on standard industry and national mortality and morbidity tables. The estimated number of deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Estimates are also made to future investment income arising from the assets backing life insurance contracts. These estimates are based on weighted average rate of return arising from the assets backing life insurance contracts. Refer to Note 21 for the key assumptions used in the estimation of provision for reserves.

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

6. Cash and Cash Equivalents

This account consists:

	2011	2010
Cash on hand and in banks	**₱42,671,841**	₱71,580,370
Time deposits	**182,029,875**	360,802,043
	₱224,701,716	₱432,382,413

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Association and earn interest at the prevailing short-term deposit rates.

Cash in bank earns interest ranging from 1.00% to 3.00% in 2011 and 2010. Time deposits earn interest ranging from 2.75% to 4.00% and 3.00% to 4.50% in 2011 and 2010, respectively.

Interest income earned from savings account and time deposits follow:

	2011	2010
Cash in banks	**₱548,495**	₱557,635
Time deposits (Note 7)		
Short-term	**6,407,840**	3,179,677
Long-term	**9,908,742**	44,107,586
	₱16,865,077	₱47,844,898

7. **Time Deposits**

This account consists of:

	2011	2010
Short-term investments	**₱456,441**	₱449,202
Long-term investments	**86,169,317**	105,761,565
	₱86,625,758	₱106,210,767

Short-term time deposits bear annual interest at rates ranging from 1.00% to 4.00% in 2011 and 1.00% to 4.50% in 2010. The long-term deposits bear annual interest at rates ranging from 4.00% to 6.00% in 2011 and 2010. Interest income from time deposits amounted ₱16.32 million and ₱47.29 million in 2011 and 2010, respectively (Note 6).

8. **Receivables**

This account consists of:

	2011	2010
Accrued interest receivable	**₱35,311,295**	₱29,960,055
Accounts receivables (Note 19)	**33,184,402**	30,379,988
Loans receivable (Note 19)	**30,000,000**	30,000,000
Other receivables	**11,648,677**	4,223,170
	110,144,374	94,563,213
Less allowance for impairment losses	**3,488,405**	6,007,321
	₱106,655,969	₱88,555,892

The following is a reconciliation of the changes in allowance for impairment losses:

	2011	2010
At January 1	**₱6,007,321**	₱3,241,146
Provision for impairment losses	**10,181,653**	2,766,175
Amounts written off	**(12,700,569)**	–
At December 31	**₱3,488,405**	₱6,007,321

Accrued interest receivable pertains mainly to interest accrued arising from cash and cash equivalents, long-term investments, long-term notes, investments in government securities, corporate bonds and notes.

Accounts receivables are generally on 1-30 day terms. Receivables from related parties represent premiums collected by related parties from the Association's members (Note 19).

In 2010, the Association loaned ₱30.00 million to its associate, CARD MRI Information Technology, Inc. (CMIT), to finance CMIT's working capital requirements in its first year of operation. The loan earns interest of 6.00% per annum with various maturities until December 31, 2016.

Other receivables consist of billings for the cost of the Association's materials and other brochures, cash advances of officers and employees, commissions and claims paid for in behalf of the insurance agency.

As of December 31, 2011 and 2010, allowance for impairment losses for receivables determined on a specific basis follows:

	Other Receivables	**Accounts Receivables**	**Total**
At January 1, 2010	₱–	₱3,241,146	₱3,241,146
Provision for impairment losses	588,251	2,177,924	2,766,175
At December 31, 2010	**588,251**	**5,419,070**	**6,007,321**
Provision for impairment losses	**3,393,240**	**6,788,413**	**10,181,653**
Amounts written off	**(649,516)**	**(12,051,053)**	**(12,700,569)**
At December 31, 2011	**₱3,331,975**	**₱156,430**	**₱3,488,405**

9. Financial Assets at FVPL

As of December 31, 2011, financial assets at FVPL consist of private equity securities. The rollforward of these investments follows:

Acquisition cost	₱20,000,000
Fair value gain from FVPL financial assets	480,000
	₱20,480,000

10. Available-for-Sale Financial Assets

This account consists of:

	2011	2010
Unquoted equity securities - at cost		
Investment in preferred shares	**₱127,500,000**	₱67,500,000
Investments in mutual fund - at market	**202,949,702**	86,287,804
	₱330,449,702	₱153,787,804

The carrying values of AFS financial assets have been determined as follows:

	Unquoted Equity Securities	Investments in Mutual Fund	Total
At January 1, 2010	₱47,500,000	₱27,387,632	₱74,887,632
Placements	20,000,000	45,650,392	65,650,392
Fair value gains	−	13,249,780	13,249,780
At December 31, 2010	**67,500,000**	**86,287,804**	**153,787,804**
Placements	**60,000,000**	**102,000,000**	**162,000,000**
Fair value gains	**−**	**14,661,898**	**14,661,898**
At December 31, 2011	**₱127,500,000**	**₱202,949,702**	**₱330,449,702**

The Association purchased additional 300,000 and 100,000 preferred shares of CARD Bank, Inc., an affiliated Microfinance-Oriented Rural Bank, in 2011 and 2010, amounting ₱60.00 million and ₱20.00 million, respectively. The Association owns 600,000 and 300,000 preferred shares of CARD Bank, Inc., as of December 31, 2011 and 2010, respectively.

The reserve for fluctuation in value of the investments in mutual funds amounted to ₱36.56 million and ₱21.90 million in 2011 and 2010, respectively. This is presented as "Other comprehensive income" in the statements of financial position.

The rollforward of the reserve for fluctuation in value of AFS financial assets follows:

	2011	2010
Beginning balance	**₱21,898,635**	₱8,648,855
Other comprehensive income		
Changes in fair value of AFS financial assets	**14,661,898**	13,249,780
	₱36,560,533	₱21,898,635

11. **Held-to-Maturity Investments**

In 2011 and 2010, HTM investments include government securities reclassified to guaranty fund and other assets which amounted to ₱127.49 million and ₱83.39 million (Notes 14 and 23). These investments are deposited with the IC, in accordance with the provisions of the Insurance Code, as security for the benefit of policyholders and creditors of the Association.

As of December 31, 2011 and 2010, the carrying amounts and fair values of these securities follow:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Fixed treasury notes	**₱1,554,367,699**	**₱1,631,565,995**	₱962,471,561	₱1,027,736,656
Retail treasury bonds	**526,311,190**	**561,893,156**	290,463,355	313,018,277
Government bonds	**393,988,308**	**440,389,869**	369,757,858	431,847,811
Corporate bonds	**211,425,410**	**246,400,216**	154,500,000	187,577,324
	₱2,686,092,607	**₱2,880,249,236**	₱1,777,192,774	₱1,960,180,068

These investments bear annual interest rates ranging from 3.75% to 9.33% in 2011 and 3.60% to 12.00% in 2010 and will mature between one (1) and ten (10) years from the statements of financial position. Interest income from these investments amounted ₱77.65 million and ₱41.41 million in 2011 and 2010, respectively.

The carrying value of HTM investments follows:

	2011	2010
At January 1	**₱1,777,192,774**	₱1,403,351,659
Additions	**1,062,054,737**	815,196,627
Amortization of bond discount	**18,568,304**	4,815,921
Reclassification to guaranty fund (Note 14)	**(44,095,896)**	(25,982,152)
Maturities	**(127,627,312)**	(420,189,281)
At December 31	**₱2,686,092,607**	₱1,777,192,774

12. **Property and Equipment**

The composition and movements in this account follow:

2011

	At January 1	**Additions /Depreciation**	**Reclassifications /Disposals**	**At December 31**
At Cost				
Land	**₱2,101,835**	**₱13,532,930**	**₱–**	**₱15,634,765**
Transportation Equipment	**5,486,396**	**86,000**	**(1,758,164)**	**3,814,232**
Computer and Office Equipment	**10,802,475**	**3,119,796**	**(1,964)**	**13,920,307**
Office Furniture and Fixtures	**558,900**	**114,222**	**(33,532)**	**639,590**
Building	**–**	**4,992,527**	**–**	**4,992,527**
Total	**18,949,606**	**21,845,475**	**(1,793,660)**	**39,001,421**
Accumulated Depreciation				
Transportation Equipment	**2,609,313**	**961,194**	**(1,758,164)**	**1,812,343**
Computer and Office Equipment	**4,407,379**	**1,671,044**	**(1,964)**	**6,076,459**
Office Furniture and Fixtures	**268,714**	**121,584**	**(33,532)**	**356,766**
Total	**7,285,406**	**2,753,822**	**(1,793,660)**	**8,245,568**
Net Book Value	**₱11,664,200**	**₱19,091,653**	**₱–**	**₱30,755,853**

2010

	At January 1	Additions /Depreciation	Reclassifications /Disposals	At December 31
At Cost				
Land	₱2,000,000	₱101,835	₱–	₱2,101,835
Transportation Equipment	3,902,265	1,584,131	–	5,486,396
Computer and Office Equipment	8,890,453	1,912,022	–	10,802,475
Office Furniture and Fixtures	268,569	290,331	–	558,900
Total	15,061,287	3,888,319	–	18,949,606
Accumulated Depreciation				
Transportation Equipment	1,862,658	746,655	–	2,609,313
Computer and Office Equipment	3,288,691	1,118,688	–	4,407,379
Office Furniture and Fixtures	179,360	89,354	–	268,714
Total	5,330,709	1,954,697	–	7,285,406
Net Book Value	₱9,730,578	₱1,933,622	₱–	₱11,664,200

13. **Investment in Associates and Deposits**

Details of the Association’s investments in associates follow:

	2011	2010
CMIT	**₱16,472,026**	₱3,179,141
BotiCARD	**3,947,821**	–
	₱20,419,847	₱3,179,141

The details of CMIT investment follow:

	2011	2010
Acquisition cost		
At January 1	**₱1,500,000**	₱–
Placements	**10,000,000**	1,500,000
At December 31	**11,500,000**	1,500,000
Accumulated equity in net earnings:		
At January 1	**1,679,141**	–
Equity in net earnings	**3,292,885**	1,679,141
At December 31	**4,972,026**	1,679,141
	₱16,472,026	₱3,179,141

In 2011, the Association advanced ₱10.00 million to CMIT representing deposits for future stock subscription for the associate’s 100,000 common shares at ₱100 par value, pending SEC approval.

In 2010, the Association purchased 15,000 common shares of CMIT amounting ₱10.00 million representing 30% ownership.

The undistributed accumulated equity in CMIT’s net earnings of ₱4.97 million and ₱1.70 million as of December 31, 2011 and 2010, respectively, which were included in the Association’s unappropriated fund balance, are not available for dividend declaration until these are actually received.

In 2011 the Association also purchased 780,000 common shares of BotiCARD Inc. representing 39% ownership amounting ₱3.90 million.

The details of the BotiCARD investment as of December 31, 2011 follow:

Acquisition cost	₱3,900,000
Equity in net earnings	47,821
	₱3,947,821

The undistributed accumulated equity in BotiCARD’s net earnings of ₱0.05 million as of December 31, 2011, which were included in the Association’s unappropriated fund balance, are not available for dividend declaration until these are actually received.

Financial information of Association's associates follow:

	2011	2010
CMIT		
Total assets	**₱134,158,799**	₱72,492,856
Total liabilities	**87,609,204**	61,895,720
Net income	**10,976,284**	5,597,136
BotiCARD		
Total assets	**7,986,710**	–
Total liabilities	**2,326,093**	–
Net income	**122,617**	–

14. **Guaranty Fund and Other Assets**

This account consists of:

	2011	2010
Guaranty fund (Note 23)	**₱127,487,319**	₱83,391,423
Refundable deposit	**4,300,000**	1,800,000
Deferred acquisition cost	**818,452**	698,568
Miscellaneous assets	**3,579,870**	3,379,956
	₱136,185,641	₱89,269,947

The guaranty fund was created under Section 392 of the Insurance Code of the Philippines, as amended under Presidential Decree No. 1455, to be used for any valid benefit claim of any of its members. These investments are government securities deposited with the IC, in accordance with the provisions of the Insurance Code, as security for the benefit of policyholders and creditors of the Association. The guaranty fund earns annual interest rates ranging from 6.87% to 12.00% in 2011 and 2010.

The rollforward analysis of guaranty fund follows:

	2011	2010
At January 1	**₱83,391,423**	₱57,409,271
Appropriation for guaranty fund (Notes 11 and 23)	**44,095,896**	25,982,152
At December 31	**₱127,487,319**	₱83,391,423

15. **Accounts Payable and Accrued Expenses**

The movement in this account follows:

	2011	2010
Collection fee payable (Note 19)	**₱18,930,163**	₱10,286,144
Accrued expenses	**16,974,285**	5,544,159
Accounts payable - CAMIA (Note 19)	**14,387,864**	4,278,429
Claims payable	**11,365,401**	3,167,185
Unearned contribution income - AKAP	**6,220,273**	5,377,110
Held in trust - CAMIA (Note 19)	**3,498,282**	1,132,615
Others	**48,654**	70,852
	₱71,424,922	₱29,856,494

Collection fee payable are non-interest bearing and are generally on a 1-30 days payment terms.

Accrued expenses pertain to accruals for employee benefits, professional and legal fees, utilities and supplies.

Accounts payable and held in trust CAMIA represents premiums collected from policyholders in behalf of CAMIA.

Unearned contribution income - AKAP represents proportion of written premiums, gross of commissions payable, that are attributable to subsequent periods.

16. Aggregate Reserves

The movement in this account follows:

	2011	2010
At January 1:		
Life insurance	**₱1,166,662,766**	₱774,876,374
Loan redemption	**72,557,224**	57,743,115
	1,239,219,990	832,619,489
Provisions:		
Life insurance	**482,819,594**	391,786,392
Loan redemption	**26,798,447**	14,814,109
	509,618,041	406,600,501
At December 31:		
Life insurance	**1,649,482,360**	1,166,662,766
Loan redemption	**99,355,671**	72,557,224
	₱1,748,838,031	₱1,239,219,990

This account represents provisions for reserve liabilities for life insurance and loan redemption insurance computed on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

Under the Association's life insurance program, members and its qualified dependents are entitled to receive a minimum amount of benefit upon death or permanent disability duly approved by the Association after meeting certain conditions as stated in the certificate of membership issued to members. A member who withdraws membership from the Association shall be entitled to 50.00% of the life insurance contribution less any benefits already paid, provided the member has been an active member for three (3) consecutive years. Reserve liabilities are set up for any future claims.

The loan redemption insurance covers the outstanding loan balance of members from CARD Bank and Center for Agriculture and Rural Development (CARD) Inc. in case of death of a member-borrower. The Association also records provision for reserve liabilities on loan redemption insurance. As of December 31, 2011 and 2010, loans covered by the Association's loan redemption insurance amounted to ₱22,365.26 million and ₱15,492.65 million, respectively.

17. Retirement Savings Fund

The retirement savings fund represents contributions of members of the Association to the provident fund, net of administrative expenses. The provident fund is being administered by the Association and is intended for the retirement of its members and it can be availed of at the age of 65. The contributions are invested and the interests thereon are credited to the retirement savings fund. If a member decides to retire prior to age of 65 and has completed a minimum of three (3) consecutive years of membership in the Association, the member shall be entitled to an equity value equivalent to 100.00% of the member's total contributions.

The rollforward of retirement savings fund follows:

	2011	2010
At January 1	**₱712,194,365**	₱495,050,610
Contribution	**305,870,245**	241,674,040
Interest	**41,903,590**	24,974,217
Claims and expenses	**(96,218,209)**	(49,504,502)
At December 31	**₱963,749,991**	₱712,194,365

18. Other Expenses

This account consists of:

	2011	2010
Professional fees	**₱20,743,193**	₱3,773,672
Rental	**3,786,626**	2,727,417
Pension expense (Note 20)	**3,846,400**	684,654
Communication	**2,480,219**	1,482,166
Security and janitorial services	**2,019,831**	1,476,572
Light and water	**1,084,561**	909,962
Commission and network access fee	**1,079,106**	408,718
Repairs and maintenance	**954,229**	662,702
Interest expense and bank charges	**561,355**	502,073
Taxes and licenses	**448,753**	268,278
Entertainment, amusement and recreation	**188,184**	95,694
Membership dues	**177,867**	2,264,518
Research and documentation	**39,458**	881
Miscellaneous	**25205**	246,937
	₱37,434,987	₱15,504,244

19. Related Party Transactions

Parties are 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, and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The significant transactions of the Association with related parties in the normal course of business are described below:

a. The Association has existing cash and cash equivalents as of December 31, 2011 and 2010, amounting ₱16.05million and ₱39.70 million, respectively, with CARD Bank Inc., CARD SME Bank and ₱0.34 million and ₱26.90 million, respectively with CARD SME Bank (formerly known as Rural Bank of Sto. Tomas), both are affiliated Microfinance Oriented Rural and Thrift Banks.

b. The Association has entered into a memorandum of agreement with CARD Bank, CARD SME Bank and CARD Inc., an affiliated non-government organization, for the collection of premiums for the life insurance, loan redemption assistance and retirement savings fund from members of the Association. Collections received on behalf of the Association from members due to the Association as of December 31, 2011 and 2010, amounted to ₱49.43million and ₱ 38.67 million, respectively (Note 8). Collection fee payable to CARD Bank, CARD SME Bank and CARD Inc. amounted to ₱2.70 million as of December 31, 2010 (Note 15).

c. The Association has receivables from CARD MRI Insurance Agency, Inc. (CAMIA) amounting to ₱14.57 million and ₱15.27 million as of December 31, 2011 and 2010, respectively, representing commissions from CAMIA and claims paid to members in behalf of CAMIA (Note 8).

d. The Association has payables to CAMIA amounting to ₱14.38million and ₱4.28 million as of December 31, 2011 and 2010, respectively, representing premiums collected from policyholders in behalf of CAMIA (Note 15). Also, the Association has premiums collected held in trust to CAMIA amounting to ₱3.49 million and ₱1.13 million as of December 31, 2011 and 2010, respectively (Note 15).

e. The Association has existing service contract with CAMIA representing marketing assistance to the Association's Build, Operate and Transfer (BOAT) program. Total payable to CAMIA amounted to ₱0.18million and ₱0.58 million as of December 31, 2011 and 2010, respectively (Note 15).

f. The Association has a lease agreement for its office space with CARD Inc. The lease is for a period of one (1) year, renewable upon mutual agreement of both parties under certain terms and conditions. Rental expense paid to CARD Inc. in 2011 and 2010 amounted to ₱0.19 million.

g. For the years ended December 31, 2011 and 2010, the short-term benefits of key management personnel amounted to ₱3.81 million and ₱2.94 million, respectively. The post-employment benefits of key management personnel amounted to ₱0.36 million and ₱0.31 million for the years ended December 31, 2011 and 2010, respectively.

h. The Association has 30% ownership of CARD MRI Information Technology, Inc. (CMIT) representing 15,000 shares at ₱100 par amounting ₱1.50 million. In 2011, the Association advanced ₱10.00 million to CARD MRI Information Technology, Inc. (CMIT) representing deposits for future stock subscription, pending SEC approval (Note 13).

   Also, as of December 31, 2010, the Association has loans receivable to CMIT amounting ₱30.00 million with an interest of 6% per annum. This is in accordance with the memorandum of agreement between the Association and CMIT on December 6, 2010 wherein the former will lend ₱70.00 million loan to the latter. The ₱30.00 million of which was released in December 2010.

The Association entered into a memorandum of agreement with CMIT for the software and hardware maintenance and other IT related services of the Association's Core Banking System (CBS) aggregating ₱77.77 million in a period of five (5) years until 2015. In 2011, the Association paid ₱15.44 million in relation to the services rendered.

i. The Association acquired 40% ownership of BotiCARD Inc. representing 780,000 shares at ₱5 par amounting ₱3.90 million. The BotiCARD Inc. aims to make affordable medicines readily available to CARD members in different rural villages.

Allowance for impairment losses on amounts due from related parties amounted to ₱3.49 million and ₱4.16 million as of December 31, 2011 and 2010 (Note 8). This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

20. **Employee Benefits**

The Association and CARD Group institutions maintain a funded and formal noncontributory retirement plan - the CARD Multi-Employer Retirement Plan - covering all regular employees. The plan has a projected unit cost format and is financed by the Association and eight (8) other related institutions. The plan complies with the requirement of Republic Act No. 7641 (Retirement Law) and provides lump sum benefits upon retirement, death, total and permanent disability, involuntary separation (except for cause) or voluntary separation after completion of at least ten years of service with the participating institutions.

The principal actuarial assumptions used in determining retirement liability for the Association's retirement plan are shown below:

	2011	2010
Discount rate	**7.08%**	9.47%
Expected rate of return on assets	**5.00%**	5.00%
Future salary increases	**12.00%**	12.00%

The amounts of pension asset recognized in the statements of financial position are as follows:

	2011	2010
Fair value of plan assets	**₱9,143,500**	₱7,263,500
Present value of pension obligation	**(23,320,200)**	9,584,400
Deficit	**(14,176,700)**	(2,320,900)
Amortization of past service cost	**364,300**	–
Net unrecognized actuarial loss	**15,124,245**	5,296,045
	₱1,311,845	₱2,975,145

The movements in the fair value of plan assets recognized follow:

	2011	2010
At January 1	**₱7,263,500**	₱5,920,400
Contribution	**2,183,100**	1,375,200
Expected return	**363,200**	473,600
Benefits paid	**(1,234,500)**	(16,000)
Transfer to (from) plan	**201,100**	(454,700)
Net actuarial gain (loss)	**367,100**	(35,000)
At December 31	**₱9,143,500**	₱7,263,500

The plan assets consist of the following:

	2011	2010
Government securities	**₱3,944,206**	₱3,682,288
Time deposit	**3,000,991**	2,062,974
Savings account	**301,013**	198,423
Others	**1,897,290**	1,319,815
	₱9,143,500	₱7,263,500

The overall expected rate of return on plan assets represents expected long-term rate on the retirement fund investments, net of operating expenses (e.g., trustee's fees, actuarial valuation fees, service charges, etc.) The actual return (loss) on plan assets amounted to ₱0.73 million and ₱0.44 million for the years ended December 31, 2011 and 2010, respectively.

The Association is required to contribute of ₱33.61 million to the fund in 2012.

The movements in the present value of pension obligation follow:

	2011	2010
At January 1	**₱9,584,400**	₱4,290,600
Current service cost	**1,522,700**	657,500
Interest cost	**907,600**	475,000
Past service cost	**1,946,400**	–
Benefits paid	**(1,234,500)**	(16,000)
Transfer to (from) plan	**201,100**	(454,700)
Actuarial loss	**10,392,500**	4,632,000
At December 31	**₱23,320,200**	₱9,584,400

The amounts included in pension expense in the statements of income follow:

	2011	2010
Current service cost	**₱1,522,700**	₱657,500
Interest cost	**907,600**	475,000
Net actuarial gains recognized during the year	**197,200**	1,700
Expected return on plan assets	**(363,200)**	(473,600)
Vested past service cost	**1,570,300**	–
Past service cost	**11,800**	24,054
	₱3,846,400	₱684,654

The movements in the net pension asset follow:

	2011	2010
At January 1	**₱2,975,145**	₱2,284,599
Pension expense	**(3,846,400)**	(684,654)
Actual contributions	**2,183,100**	1,375,200
At December 31	**₱1,311,845**	₱2,975,145

The rollforward of unrecognized actuarial losses follows:

	2011	2010
At January 1	**(₱5,296,045)**	(₱630,745)
Net actuarial gain (loss)	**367,100**	(35,000)
From pension obligation	**(10,392,500)**	(4,632,000)
Amortization of actuarial gains	**197,200**	1,700
At December 31	**(₱15,124,245)**	(₱5,296,045)

Amounts of the current and previous periods follow:

	2011	2010	2009	2008
Fair value of plan assets	**₱9,143,500**	₱7,263,500	₱5,920,400	₱5,481,008
Present value of defined benefit obligation	**(23,320,200)**	9,584,400	4,290,600	2,263,186
Surplus (deficit)	**(₱14,176,700)**	(₱2,320,900)	₱1,629,800	₱3,217,822
Experience adjustments on plan liabilities	**₱10,392,500**	₱4,632,000	₱1,140,514	₱37,353,612
Experience adjustments on plan assets	**₱367,100**	(₱35,000)	(₱696,908)	(₱79,765)

21. Management of Insurance and Financial Risks

Governance Framework

The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall association and individual business unit levels.

The policies define the Association's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specify reporting requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the member's benefit. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Association are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, minimum guaranty fund, risk-based capital requirements).

Margin of solvency (MOS)
The Association is required to maintain at all times an MOS for life insurance business of ₱500,000 or ₱2.00 per thousand of the total amount of its insurance in force as of the preceding calendar year on all policies, except term insurance, whichever is higher.

The MOS shall be the excess of the value of its admitted assets (as defined under the IC Code), exclusive of its paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. As of December 31, 2011 and 2010, the Association's MOS based on its calculations amounted to ₱637.00 million and ₱527.00 million, respectively. The final amount of the MOS can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The surplus available for MOS for the Association follows:

	2011	2010
Admitted assets	**₱3,441,226,269**	₱2,481,577,958
Admitted liabilities	**2,712,588,022**	1,954,581,540
Net worth	**₱728,638,247**	₱526,996,418

As of December 31, 2011 and 2010, the estimated non-admitted assets of the Association's life operations, as defined under the Code, which are included in the accompanying statements of financial position follows:

	2011 (Estimated)	2010
Cash and cash equivalents	**₱12,765,210**	₱58,993,677
Property and equipment - net	**2,284,713**	3,395,010
Other assets	**81,762,795**	121,251,437
	₱96,812,718	₱183,640,124

If an insurance company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such Association until its authority is restored by the IC.

Guaranty fund
As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of ₱5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association's gross premium collections until the guaranty fund reaches 12.5% of the minimum paid up capital for domestic life insurance companies or ₱125.00 million. As of December 31, 2011 and 2010, the Association has a total of ₱127.49 million and ₱83.39 million, respectively, representing guaranty fund which is deposited with the IC (Notes 14 and 23).

Fixed capital requirements
In September 2006, the Department of Finance issued Order 27-06 increasing the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

As of December 31, the required minimum statutory net worth and minimum paid up capital for the Association follows:

	2011	2010
Minimum statutory net worth	**₱350,000,000**	₱200,000,000

IMC No. 26-2008 provides that in view of the compliance of insurance companies with the requirement of IMC 10-2006, the scheduled increase due December 31, 2008 have been deferred for a year. Hence, the IMC reiterates that by December 31, 2011, insurance companies should comply with the increase previously scheduled for December 31, 2010. As of December 31, 2011, the Association has complied with this requirement.

Risk-based capital requirements (RBC)
In October 2006, the IC issued IMC NO. 6-2006 adopting the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every life insurance entity is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as Member's equity divided by the RBC requirement whereas, Members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

	2011	2010
Member's equity	**₱859,665,994**	₱683,947,234
RBC requirement	**310,231,042**	256,223,129
RBC Ratio	**277.11%**	266.93%

The final amount of the RBC ratio can be determined only after the accounts of the Association have been examined by the IC specifically as to admitted and non-admitted assets as defined under the same Code.

The main risks arising from the Association's financial instruments follow:

Consolidated compliance framework
In November 2006, the IC issued IMC 10-2006 integrating the compliance standards for the fixed capitalization and risk-based capital framework. Under this IMC, all insurers shall annually comply with the RBC ratio requirements.

Subsequent to year 2006, the fixed capitalization requirements for a given year may be suspended for insurers that comply with the required RBC hurdle rate, provided that the industry complies with the required Industry RBC Ratio Compliance Rate. The IMC provides the annual schedule of progressive rates for the Industry RBC Ratio Compliance Rates and the RBC Hurdle Rates from 2007 to 2011. For the review year 2011 which shall be based on the 2010 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 250%. For the review year 2010 which shall be based on the 2009 synopsis, the Industry RBC Ratio Compliance Rate is 90% and the RBC Hurdle Rate is 200%. Failure to achieve one of the rates will result in the imposition of the fixed capitalization requirement for the year under review.

Insurance Risk

The principal risk the Association faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims. Therefore, the objective of the Association is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements for the loan redemption fund.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Although the Association has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus, a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Association's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Association substantially dependent upon any single reinsurance contract.

Underwriting risk

Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- *Mortality risk* - risk of loss arising due to policyholder death experience being different than expected.
- *Morbidity risk* - risk of loss arising due to policyholder health experience being different than expected.
- *Investment return risk* - risk of loss arising from actual returns being different than expected.
- *Expense risk* - risk of loss arising from expense experience being different than expected.
- *Policyholder decision risk* - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by the Association, type of risk insured and by industry. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Association's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Association has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Association to pursue third parties for payment of some or all cost. The Association further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Association.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality and morbidity rates
Assumptions are based on standard industry and national tables, according to the type of contract written, reflecting recent historical experience and which are adjusted where appropriate to reflect the Association's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and decrease the funds of the Association.

Investment return
The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to a reduction in expenditure and an increase in the funds of the Association.

Expenses
Operating expenses assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation adjustments if appropriate. An increase in the level of expenses would result in an increase in expenditure thereby reducing the funds of the Association.

Lapse and surrender rates
Lapses relate to the termination of policies due to nonpayment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on Association's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce the funds of the Association, but later increases are broadly neutral in effect.

Discount rate
Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Association's own risk exposure.

A decrease in the discount rate will increase the value of the liability.

<u>Sensitivities</u>
The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of revenue and expenses. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot easily be gleaned from these results. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees.

2011

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	**Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate**
Increase (decrease) on gross liabilities	**(₱433,813,861)**	**₱398,020,094**
Increase (decrease) on net liabilities	**433,813,861**	**398,020,094**
Increase (decrease) on revenue	**433,813,861**	**(398,020,094)**

2010

	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate	Increase of 1.00% on discount rate and decrease of 25.00% on mortality rate
Increase (decrease) on gross liabilities	(₱18,139,306)	₱28,151,573
Increase (decrease) on net liabilities	(18,139,306)	28,151,573
Increase (decrease) on revenue	18,139,306	(28,151,573)

The sensitivity analyses take into account upward movements in the discount rates and upward and downward movements in mortality and morbidity rates. These do not necessarily represent management's view of expected future rate changes.

Financial instruments
The Association's principal financial instruments are cash and cash equivalents, time-deposits, receivables, guaranty fund, financial assets at FVPL, AFS financial assets, HTM investments, accounts payable and accrued expenses. The main purpose of these financial instruments is to finance their operations. The following table sets forth the carrying values and estimated fair values of financial assets and liabilities recognized as of December 31, 2011 and 2010:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Loans and receivables				
Cash and cash equivalents	**₱224,701,716**	**₱224,701,716**	₱432,382,413	₱432,382,413
Short-term investments	**456,441**	**456,441**	449,202	449,202
Long-term investments	**86,169,317**	**86,169,317**	105,761,565	105,761,565
Receivables				
Accrued interest receivable	**35,311,295**	**35,311,295**	29,960,055	29,960,055
Accounts receivables	**33,027,972**	**33,027,972**	24,960,918	24,960,918
Loans receivable	**30,000,000**	**30,000,000**	30,000,000	30,000,000
Other receivables	**8,316,702**	**8,316,702**	3,634,919	3,634,919
Refundable deposits	**4,300,000**	**4,300,000**	1,800,000	1,800,000
Financial assets at FVPL	**20,480,000**	**20,480,000**	–	–
AFS financial assets				
Quoted	**202,949,702**	**202,949,702**	86,287,804	86,287,804
Unquoted	**127,500,000**	**127,500,000**	67,500,000	67,500,000
HTM investments				
HTM investments	**2,686,092,607**	**2,880,249,236**	1,777,192,774	1,960,180,068
Guaranty fund	**127,487,319**	**132,514,008**	83,391,423	88,867,748
	₱3,586,793,071	**₱3,785,976,389**	₱2,643,321,073	₱2,831,784,692
Financial Liabilities				
Accounts payable and accrued expenses	**₱71,424,922**	**₱71,424,922**	₱29,856,494	₱29,856,494

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash and cash equivalents, receivables, investments, refundable deposits, accounts payable and accrued expenses approximate their fair values.

For unquoted equity investments classified as AFS, these investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods for arriving at a reliable fair value.

For investments in mutual fund companies, fair values are established by reference to published bid-values.

Fair value hierarchy
The Association uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or 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.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of December 31, 2010:

2011

	Level 1	**Level 2**	**Level 3**	**Total**
AFS FINANCIAL ASSETS				
Investments in mutual fund	**₱202,949,702**	**₱–**	**₱–**	**₱202,949,702**
Preferred shares	–	–	**127,500,000**	**127,500,000**
	₱202,949,702	**₱–**	**₱127,500,000**	**₱330,449,702**

2010

	Level 1	Level 2	Level 3	Total
AFS FINANCIAL ASSETS				
Investments in mutual fund	₱86,287,804	₱–	₱–	₱86,287,804
Preferred shares	–	–	67,500,000	67,500,000
	₱86,287,804	₱–	₱67,500,000	₱153,787,804

The fair values of unquoted AFS financial assets are not reasonably determinable due to the unpredictable nature or future cash flows and the lack of suitable methods of arriving at the reliable fair value. Accordingly, these unquoted shares are presented at cost amounting to ₱127.50 million and ₱67.50 million in 2011 and 2010, respectively.

There were no transfers among levels 1, 2 and 3 in 2011 and 2010.

Financial Risks
The Association is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk that the Association is exposed to is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and debt securities products, all of which are exposed to general and specific market movements.

Credit risk
This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Association's exposure to credit risk:

a. The credit risk in respect of customer balances, incurred on non payment of premiums or contributions will only persist during the grace period specified in the policy document or when the policy is either paid up or terminated.

b. Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and update the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

c. The Association sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position.

	2011	2010
Financial Assets		
Loans and receivables		
Cash and cash equivalents (excluding cash on hand amounting ₱2.51 million and ₱2.97 million, in 2011 and 2010, respectively)	**₱222,190,992**	₱429,414,018
Short-term investments	**456,441**	449,202
Long-term investments	**86,169,317**	105,761,565
Receivables		
Accrued interest receivable	**35,311,295**	29,960,055
Accounts receivables	**33,184,402**	30,379,988
Loans receivable	**30,000,000**	30,000,000
Other receivables	**11,648,677**	4,223,170
Refundable deposit	**4,300,000**	1,800,000
Financial assets at FVPL	**20,480,000**	–
AFS financial assets		
Quoted	**202,949,702**	86,287,804
Unquoted	**127,500,000**	67,500,000
HTM investments	**2,686,092,607**	1,777,192,774
Guaranty fund	**127,487,319**	83,391,423
	₱3,587,770,752	₱2,646,359,999

The credit risk is concentrated on the following:

	2011	2010
Related parties	**₱149,947,983**	₱258,815,078
Unrelated parties	**3,437,822,769**	2,390,513,316
	₱3,587,770,752	₱2,649,328,394

The table below provides information regarding the credit risk exposure of the Association by classifying assets according to the Association's credit ratings of counterparties as of December 31, 2011 and 2010.

2011

	Neither Past-Due nor Impaired			
	Investment Grade	**Non-investment Grade**	**Past Due and Impaired**	**Total**
Financial Assets				
Loans and receivables				
Cash and cash equivalents	**₱222,190,992**	**₱–**	**₱–**	**₱222,190,992**
Short-term time deposits	**456,441**	**–**	**–**	**456,441**
Long-term time deposits	**86,169,317**	**–**	**–**	**86,169,317**
Receivables				
Accrued interest receivable	**35,311,295**	**–**		**35,311,295**
Accounts receivables	**33,027,972**	**–**	**156,430**	**33,184,402**
Loans receivable	**30,000,000**	**–**	**–**	**30,000,000**
Other receivables	**–**	**8,316,702**	**3,331,975**	**11,648,677**
Refundable deposit	**4,300,000**	**–**	**–**	**4,300,000**
Financial assets at FVPL	**20,480,000**			**20,480,000**
AFS financial assets				
Quoted	**202,949,702**	**–**	**–**	**202,949,702**
Unquoted	**127,500,000**	**–**	**–**	**127,500,000**
HTM investments				
HTM investments	**2,686,092,607**	**–**	**–**	**2,686,092,607**
Guaranty fund	**127,487,319**	**–**	**–**	**127,487,319**
	₱3,575,965,645	**₱8,316,702**	**₱3,488,405**	**₱3,587,770,752**

2010

	Neither Past-Due nor Impaired			
	Investment Grade	Non-investment Grade	Past Due and Impaired	Total
Financial Assets				
Loans and receivables				
Cash and cash equivalents	₱429,414,018	₱–	₱–	₱429,414,018
Short-term time deposits	449,202	–	–	449,202
Long-term time deposits	105,761,565	–	–	105,761,565
Receivables				
Loans receivable	30,000,000	–	–	30,000,000
Accounts receivables	24,960,918	–	5,419,070	30,379,988
Accrued interest receivable	29,960,055	–	–	29,960,055
Other receivables	–	3,634,919	588,251	4,223,170
Refundable deposit	1,800,000	–	–	1,800,000
AFS financial assets				
Quoted	86,287,804	–	–	86,287,804
Unquoted	67,500,000	–	–	67,500,000
HTM investments				
HTM investments	1,777,192,774	–	–	1,777,192,774
Guaranty fund	83,391,423	–	–	83,391,423
	₱2,636,717,759	₱3,634,919	₱6,007,321	₱2,646,359,999

The Association uses a credit rating concept based on the borrowers and counterparties' overall credit worthiness, as follows:

Investment grade	-	Rating given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations
Non-investment grade	-	Rating given to borrowers and counterparties who possess above average capacity to meet its obligations

The Association trades only with members who are also members of the related parties. The receivables represent mostly collections of the related parties pertaining to contributions for premiums for life insurance, loan redemption assistance and provident fund unremitted to the Association. Receivables are generally on a 1-30 days terms and are all current. All receivables are neither past due nor impaired.

The Association conducts periodic review of allowance for credit losses each financial year through examining the financial position of the related party and the market in which the related party operates.

Liquidity risk
This risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Association's exposure to liquidity risk:

a) The Association liquidity risk policy sets out the assessment and determination of what constitutes liquidity risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the management. The policy is regularly reviewed for pertinence and for changes in the risk environment.

b) Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one (1) year and beyond one (1) year from reporting date:

2011

	Up to one year	**1-3 years**	**3-5 years**	**Over 5 years**	**No term**	**Total**
Financial assets						
Loans and receivables						
Cash and other cash items	**₱222,190,992**	**₱–**	**₱–**	**₱–**	**₱–**	**222,190,992**
Time deposits	**66,125,758**	**20,500,000**	–	–	–	**86,625,758**
Receivables						
Accrued interest receivable	**35,311,295**	–	–	–	–	**35,311,295**
Accounts receivables	**33,184,402**	–	–	–	–	**11,648,677**
Loans receivables	–	**30,000,000**	–	–	–	**30,000,000**
Other receivables	**11,648,677**	–	–	–	–	**33,184,402**
Refundable deposit	–	–	–	–	**4,300,000**	**4,300,000**

(Forward)

	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets at FVPL	**20,480,000**	–	–	–	–	**20,480,000**
AFS financial assets	–	–	–	–	**330,449,702**	**330,449,702**
HTM investments						
HTM investments	**400,821,000**	**412,204,181**	**786,194,703**	**1,086,872,723**	–	**2,686,092,607**
Guaranty fund	–	**5,561,253**	**79,025,582**	**42,900,484**	–	**127,487,319**
	₱789,762,124	**₱468,265,434**	**₱865,220,285**	**₱1,129,773,207**	**₱334,749,702**	**₱3,587,770,752**
Financial liabilities						
Other financial liabilities						
Collection fee payable	**₱18,930,163**	**₱–**	**₱–**	**₱–**	**₱–**	**₱18,930,163**
Claims payable	**11,365,401**	–	–	–	–	**11,365,401**
Unearned contribution income - AKAP	**6,220,273**	–	–	–	–	**6,220,273**
Accounts payable - CAMIA	**14,387,864**	–	–	–	–	**14,387,864**
Accrued expenses	**16,974,285**	–	–	–	–	**16,974,285**
Held in trust - CAMIA	**3,498,282**	–	–	–	–	**3,498,282**
	₱71,376,268	**₱–**	**₱–**	**₱–**	**₱–**	**₱71,376,268**

2010

	Up to one year	1-3 years	3-5 years	Over 5 years	No term	Total
Financial assets						
Loans and receivables						
Cash and other cash items	₱432,382,413	₱–	₱–	₱–	₱–	₱432,382,413
Time deposits	24,352,790	81,857,977	–	–	–	106,210,767
Receivables						
Accrued interest receivable	29,960,055	–	–	–	–	29,960,055
Accounts receivables	30,379,988	–	–	–	–	30,379,988
Loans receivables	–	30,000,000	–	–	–	30,000,000
Other receivables	4,223,170	–	–	–	–	4,223,170
Refundable deposit	–	–	–	–	1,800,000	1,800,000
AFS financial assets	–	–	–	–	153,787,804	153,787,804
HTM investments						
HTM investments	113,086,192	598,800,072	246,355,640	818,950,870	–	1,777,192,774
Guaranty fund	16,314,070	–	1,594,599	65,482,754	–	83,391,423
	₱650,698,678	₱710,658,049	₱247,950,239	₱884,433,624	₱155,587,804	₱2,649,328,394
Financial liabilities						
Other financial liabilities						
Collection fee payable	₱10,286,144	₱–	₱–	₱–	₱–	₱10,286,144
Claims payable	3,167,185	–	–	–	–	3,167,185
Unearned contribution income - AKAP	5,377,110	–	–	–	–	5,377,110
Accounts payable - CAMIA	4,278,429	–	–	–	–	4,278,429
Accrued expenses	5,544,159	–	–	–	–	5,544,159
Held in trust - CAMIA	1,132,615	–	–	–	–	1,132,615
	₱29,785,642	₱–	₱–	₱–	₱–	₱29,785,642

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The following policies and procedures are in place to mitigate the Association's exposure to market risk:

1) The market risk policy sets out the assessment and determination of what constitutes market risk for the Association. Compliance with the policy is monitored and exposures and breaches are reported to the association risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

2) Set asset allocation and portfolio limit structure, to ensure that assets back specific member liabilities and that assets are held to deliver income and gains for members which are in line with expectations of the members.

3) Stipulated diversification benchmarks by type of instrument, as the association is exposed to guaranteed bonuses, cash and annuity options when interest rates falls.

Currency risk
The Association's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to U.S. dollars, in which some of its investments are denominated. The following table shows the details of the Association's foreign currency denominated monetary assets and liabilities and their Philippine peso equivalents.

	2011		2010	
	U.S. Dollar[(1)]	**Peso Equivalent**	U.S. Dollar[(1)]	Peso Equivalent
Cash in bank	**$2,710**	**₱118,806**	$–	₱–
Time deposits	**5,327**	**233,536**	5,229	241,584

[(1)] The exchange rate used was ₱43.84 to US $1.00.

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the Philippine Peso exchange rate, with all other variables held constant, of the Association's income before income tax (due to changes in the fair value of currency sensitive monetary assets and liabilities).

	Currency	**Increase (decrease) in Philippine Peso rate**	**Effect on Profit**
2011	**USD**	**+1.95%**	**₱6,858**
		-1.95%	**(6,858)**

	Currency	Increase (decrease) in Philippine Peso rate	Effect on Profit
2010	USD	+3.0%	₱7,248
		-3.0%	(7,248)

Interest rate risk
This interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Association to cash flow interest risk, whereas fixed interest rate instruments expose the Association to fair value interest risk.

The Association's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity.

The following table shows the information relating to the Association's financial instruments as of December 31, 2011 and 2010 that are exposed to fair value interest rate risk presented by maturity profile.

2011

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents-regular deposit	**1.00% to 3.00%**	**₱42,671,841**	**₱–**
Cash and cash equivalents-time deposits	**3.00% to 4.50%**	**182,029,875**	**–**
Short-term investments	**1.00% to 4.00%**	**456,441**	**–**
Long-term investments	**4.00% to 6.00%**	**86,171,317**	**20,500,000**
HTM investments	**3.75% to 9.33%**	**400,821,000**	**2,285,271,607**
Guaranty fund under other assets	**6.87% to 12.00%**	**–**	**127,487,319**
Total financial assets		**₱712,150,474**	**₱2,433,258,926**

2010

	Range of interest rate	Up to a year	Over one (1) year
Cash and cash equivalents-regular deposit	1.00% to 4.00%	₱71,580,370	₱–
Cash and cash equivalents-time deposits	3.00% to 6.00%	360,802,043	–
Short-term investments	1.00% to 3.38%	449,202	–
Long-term investments	6.00% to 8.00%	23,534,444	82,227,121
HTM investments	5.87% to 12.00%	113,086,192	1,664,106,582
Guaranty fund under other assets	6.88% to 12.00%	16,314,070	67,077,353
Total financial assets		₱585,766,321	₱1,813,411,056

Price risk
The Association's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS investments.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Association's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each country, sector and market. Investments in derivatives are also not allowed.

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the market value of investments in mutual fund companies, with all other variables held constant, of the Association's equity (due to changes in the net asset value of mutual funds).

	Amount	Increase (decrease) in fair value	Impact on fund balance
2011	**₱202,949,702**	**+23.50%**	**47,693,180**
		-23.50%	**(47,693,180)**

	Amount	Increase (decrease) in fair value	Impact on fund balance
2010	₱86,287,804	+21.50%	₱18,551,878
		-21.50%	(18,551,878)

22. Commitment and Contingencies

There were no commitments, guarantees and contingent liabilities that arose in the normal course of the Association's operations which are not reflected in the accompanying financial statements. As of December 31, 2011 and 2010, management is of the opinion that losses, if any, from these commitments, guarantees and contingent liabilities will not have a material effect on the Association's financial statements.

23. Appropriated Fund Balance

	2011	2010
Guaranty fund (Note 14)	**₱127,487,319**	₱83,391,423
AKAP CARD	**18,508,500**	18,508,500
CDRAP	**15,000,000**	15,000,000
MAHP	**10,000,000**	10,000,000
	₱170,995,819	₱126,899,923

The Association is required to increase the guaranty fund based on the 5.00% annual gross premium collections until the guaranty fund reaches 12.50% of the minimum paid up capital for domestic life insurance companies or ₱175.00 million. Accordingly, the Association appropriated a portion of guaranty fund amounting to ₱44.10 million and ₱48.76 million in 2011 and 2010, respectively (Notes 11 and 14).

In 2008, the Association entered into a "Third party agreement" with PHILHEALTHCARE Inc. for the issuance of Ang inyong Kalusugan ay Pangangalagaan ng CARD (AKAP CARD) exclusively to its members and dependents. Under the agreement, the Association is to set-up an appropriated fund equal to ₱6,000 per member.

The Association appropriated ₱15.00 million for CARD MRI Disaster Relief Assistance Program (CDRAP) aimed at providing relief assistance to its members and dependents during calamities and other disasters in form of cash or relief goods.

The Association appropriated ₱10.00 million for Microfinance and Health Protection (MAHP) program on CARD Healthy Pinoy. The program is administered by by CARD MRI Development Institute, Inc. (CMDI), related party under CARD MRI, as a protection service package to its members and dependents which include Health loan to cover the premium payment for health insurance or PhilHealth, Credit with Education on health such as Dengue Prevention, Planning for Health, Using Health Services and Health Insurance and offer discounted health services and cheaper medicines.

24. Approval of Financial Statements

The accompanying financial statements of the Association were authorized for issue by the Board of Trustees on March 10, 2012.

25. Supplementary Information Required Under Revenue Regulations 19-2011

The Association is exempted from taxes as provided for under Tax Reform Act of 1997.

The following schedules and information on taxable income and deductions of the Association follows:

a. The summary of the Association's revenue in 2011 is as follows:

Gross earned premiums on insurance contracts	₱1,082,933,160
Interest income - net of final tax	94,748,930
Contribution income - AKAP	16,050,071
Equity in net earnings in affiliate	3,340,706
Fair value gains from financial assets at FVPL	480,000
Miscellaneous income	458,672
	₱1,198,011,539

b. The summary of the Association's direct cost of service representing net insurance claims and reserves follows:

Increase in aggregate reserves	₱509,618,041
Gross claims	268,522,985
AKAP healthcare benefits	43,318,761
	₱821,459,787

c. The itemized deductions of the Association in 2011 are as follows:

Transportation and travel	₱57,965,735
Donation and contribution	50,663,732
Salaries and allowances	26,670,662
Program, monitoring and evaluation	13,257,644
Provision for doubtful accounts	10,181,653
Supplies	8,533,913
Training and development	3,543,129
Meetings and seminars	3,083,170
Depreciation	2,753,822
Insurance	1,406,443
Others	37,434,987
	₱215,494,890

d. Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the caption 'Others' under the 'Operating expenses' section in the Association's statements of income.

Details consist of the following:

License and permit fees	₱379,774
Documentary stamp taxes	62,260
	₱442,034

26. Supplementary Information Required Under Revenue Regulations 15-2010

The Association reported and/or paid the following types of taxes in 2011:

Value added tax (VAT)
As a nonstock, not-for-profit and mutual benefit association, the Association was granted tax exemption with respect to income and value-added taxes as provided under the National Internal Revenue Code of 1997 as amended by Republic Act 8424 known as the Comprehensive Tax Reform Program by the Bureau of Internal Revenue (Note 1).

a. Net Sales/Receipts and Output VAT declared in the Association's VAT returns follows:

   The Association is exempt from VAT.

b. Details of Input VAT follow:

   The Association is exempt from VAT.

c. Information on the Association's importations

   The Association does not undertake importation activities.

d. Taxes and Licenses

   This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under the caption 'Others' under the 'Operating expenses' section in the Association's statements of income.

Details consist of the following:

License and permit fees	₱379,774
Documentary stamp taxes	62,260
	₱442,034

e. Withholding Taxes

   Details consist of the following:

Withholding taxes on compensation and benefits	₱810,936
Expanded withholding taxes	169,269
	₱980,205

f. Tax Assessments and Cases

The Association has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.

SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2011:

PFRSs	**Adopted/Not adopted/ Not applicable**
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Not applicable
PFRS 2, *Share-based Payment*	Not applicable
PFRS 3, *Business Combinations*	Not applicable
PFRS 4, *Insurance Contracts*	Adopted
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Not applicable
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Not applicable
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Not applicable
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Not applicable
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Not applicable

PFRSs	Adopted/Not adopted/ Not applicable
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Not applicable
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Not applicable
PAS 34, *Interim Financial Reporting*	Not applicable
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC-1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not applicable
Philippine Interpretation IFRIC-2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*	Not applicable
Philippine Interpretation IFRIC-5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC-6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC-7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives*	Not applicable
Philippine Interpretation IFRIC-10, *Interim Financial Reporting and Impairment*	Not applicable
Philippine Interpretation IFRIC-12, *Service Concession Arrangements*	Not applicable
Philippine Interpretation IFRIC-13, *Customer Loyalty Programmes*	Not applicable
Philippine Interpretation IFRIC-14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not applicable

PFRSs	Adopted/Not adopted/ Not applicable
Philippine Interpretation IFRIC-16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC-17, *Distributions of Non-cash Assets to Owners*	Not applicable
Philippine Interpretation IFRIC-18, *Transfers of Assets from Customers*	Not applicable
Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*	Not applicable
Philippine Interpretation SIC-7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC-10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC-12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Not applicable
Philippine Interpretation SIC-15, *Operating Leases - Incentives*	Not applicable
Philippine Interpretation SIC-21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not applicable
Philippine Interpretation SIC-25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not applicable
Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Not applicable
Philippine Interpretation SIC-29, *Service Concession Arrangements: Disclosures*	Not applicable
Philippine Interpretation SIC-31, *Revenue - Barter Transactions Involving Advertising Services*	Not applicable
Philippine Interpretation SIC-32, *Intangible Assets - Web Site Costs*	Not applicable
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 -Revenue recognition for sales of property units under pre-completion contracts	Not applicable
PIC Q&A No. 2006-02: PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	Not applicable
PIC Q&A No. 2007-03: PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)	Not applicable
PIC Q&A No. 2008-01 (Revised): PAS 19.78 - Rate used in discounting post-employment benefit obligations	Not applicable
PIC Q&A No. 2008-02: PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20	Not applicable

PFRSs	Adopted/Not adopted/ Not applicable
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern	Not applicable
PIC Q&A No. 2010-01: PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	Not applicable
PIC Q&A No. 2010-02: PAS 1R.16 - Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) - Requirements for a Third Statement of Financial Position	Not applicable

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD) MUTUAL BENEFIT ASSOCIATION, INC.

SCHEDULE OF RECEIPTS AND DISBURSEMENTS

Receipts	
Gross contributions	₱1,107,700,093
Investment income	73,141,438
Other proceeds	2,083,739
Total Receipts	₱1,182,925,270
Disbursements	
Claims payments	208,522,985
Investments	953,654,661
Operating expenses	211,149,889
Other expenses	17,278,432
Total Disbursements	₱1,390,605,967

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Center for Agriculture and Rural Development (CARD)
Mutual Benefit Association, Inc.
Colago Avenue, Barangay 1-A
San Pablo City, Laguna

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Center for Agriculture and Rural Development (CARD) Mutual Benefit Association, Inc. as at and for the years ended December 31, 2011 and 2010 and have issued our report thereon dated March 10, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all the effective standards and interpretations under PFRS as of December 31, 2011 and schedule of all the receipts and disbursements are the responsibility of the Association's management. These schedules are presented for the purpose of complying with Securities Regulation code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-1 (Group A),
March 11, 2011, valid until March 10, 2014
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174824, January 2, 2012, Makati City

March 10, 2012

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