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

*(A Nonstock, Not-for-Profit Association)*

Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

# COVER SHEET

A1999-15750
SEC Registration Number

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

(Association'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**
(Association Telephone Number)

| 12 | 31 |
|---|---|
| *Month* | *Day* |

(Fiscal Year)

AAFS
(Form Type)

| 09 | 09 |
|---|---|
| *Month* | *Day* |

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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Building a better working world

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

# 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 Association's 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, 2013 and 2012, and the 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements 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.

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-1 (Group A),
April 15, 2013, valid until April 14, 2016
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4225205, January 2, 2014, Makati City

March 31, 2014

*SGVFS004629*

**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 Association's 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, 2013 and 2012, and 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.

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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.

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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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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March 31, 2014

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**INDEPENDENT AUDITORS' REPORT**
**TO ACASSOCIATION 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, 2013, on which we have rendered the attached report dated March 31, 2014.

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.

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-1 (Group A),
April 15, 2013, valid until April 14, 2016
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March 31, 2014

*SGVFS004629*

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

## STATEMENTS OF FINANCIAL POSITION

| | | **December 31** | January 1 |
|---|---|---|---|
| | **2013** | 2012 (As restated Note 2) | 2012 (As restated Note 2) |
| **ASSETS** | | | |
| **Cash and Cash Equivalents** | | | |
| (Notes 6, 23 and 25) | **₱642,567,435** | ₱829,704,731 | ₱224,701,716 |
| **Short-term Investments** (Notes 7 and 25) | **72,922,025** | 70,384,177 | 86,625,758 |
| **Financial Assets** | | | |
| Held-to-maturity investments | | | |
| (Notes 11, 25 and 27) | **3,741,083,915** | 3,128,634,363 | 2,813,579,926 |
| Available-for-sale financial assets | | | |
| (Notes 10 and 25) | **514,082,289** | 472,312,231 | 330,449,702 |
| Loans and receivables (Notes 8 and 25) | **227,184,389** | 80,672,118 | 106,655,969 |
| Financial Assets at fair value through | | | |
| profit or loss (Notes 9 and 25) | **21,040,000** | 20,260,000 | 20,480,000 |
| **Property and Equipment** (Note 12) | **139,431,853** | 68,708,142 | 30,755,854 |
| **Investments in Associates** (Note 13) | **288,066,224** | 25,447,653 | 20,419,847 |
| **Other Assets** (Notes 14) | **8,238,374** | 7,693,108 | 8,698,322 |
| | **₱5,654,616,504** | ₱4,703,816,523 | ₱3,642,367,094 |
| **LIABILITIES AND FUND BALANCE** | | | |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | | | |
| (Notes 15, 24 and 25) | **₱70,602,938** | ₱163,591,076 | ₱53,839,248 |
| Insurance contract liabilities (Note 16) | **2,751,822,296** | 2,247,913,405 | 1,766,423,705 |
| Retirement savings fund (Note 17) | **1,580,623,648** | 1,236,694,881 | 963,749,991 |
| Net pension liability (Notes 24) | **33,621,946** | 27,990,241 | 14,176,700 |
| Total Liabilities | **4,436,670,828** | 3,676,189,603 | 2,798,189,644 |
| **Fund Balance** | | | |
| Appropriated fund balance (Notes 11 and 27) | **217,349,164** | 193,909,179 | 170,995,819 |
| Unappropriated fund balance | **989,991,384** | 835,716,838 | 651,745,343 |
| Other comprehensive income (Note 10) | **10,605,128** | (1,999,097) | 21,436,288 |
| Total Fund Balance | **1,217,945,676** | 1,027,626,920 | 844,177,450 |
| | **₱5,654,616,504** | ₱4,703,816,523 | 3,642,367,094 |

*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 COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | 2012 (As restated Note 2) |
| **REVENUE** | | |
| Gross premiums on insurance contracts (Note 18) | **₱1,343,002,574** | ₱1,173,156,469 |
| Interest income (Notes 6, 7,and 11) | **167,003,125** | 179,933,784 |
| Dividend income (Note 10) | **26,351,243** | 10,097,497 |
| Surrender charge | **14,715,550** | – |
| Equity in net earnings of associates (Note 13) | **4,409,184** | 2,027,806 |
| Bad debts recovery (Note 8) | **1,136,911** | – |
| Fair value gains from financial assets at fair value through profit or loss (Note 9) | **780,000** | – |
| Contribution income – AKAP | **374,770** | 5,542,740 |
| Realized gain on investment in mutual funds (Note 10) | **–** | 30,518,460 |
| Others (Note 22) | **798,733** | 15,182,457 |
| **Other revenue** | **215,569,516** | 243,302,744 |
| **TOTAL REVENUE** | **1,558,572,090** | 1,416,459,213 |
| **BENEFITS, CLAIMS AND EXPENSES** | | |
| Gross change in insurance contract liabilities (Note 16) | **503,908,891** | 487,904,840 |
| Gross insurance contract benefits and claims paid | **510,203,495** | 423,494,487 |
| **Insurance benefits claims** | **1,014,112,386** | 911,399,327 |
| Direct expenses (Note 20) | **818,452** | 1,552,093 |
| General and administrative expenses (Note 21) | **264,266,082** | 260,416,180 |
| Fair value losses from financial assets at fair value through profit or loss (Note 9) | **–** | 220,000 |
| **Expenses** | **265,084,534** | 262,188,273 |
| **TOTAL BENEFITS, CLAIMS AND EXPENSES** | **1,279,196,920** | 1,173,587,600 |
| **EXCESS OF REVENUE OVER EXPENSES** | **279,375,170** | 242,871,613 |
| **PROVISION FOR FINAL TAX** | **(33,400,624)** | (35,986,757) |
| **NET EXCESS OF REVENUE OVER EXPENSES** | **245,974,546** | 206,884,857 |

(Forward)

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | 2012 (As restated Note 2) |
| **NET EXCESS OF REVENUE OVER EXPENSES** | **₱245,974,546** | ₱206,884,856 |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Items that will be reclassified to profit or loss in subsequent periods** (Note 10) | | |
| Fair value gains on available-for-sale financial assets | **13,703,658** | 20,038,961 |
| Transfer to profit or loss | **–** | (30,518,460) |
| **Items that will not be reclassified to profit or loss in subsequent periods** (Note 24) | | |
| Remeasurement loss on defined benefit plan | **(1,099,433)** | (12,955,886) |
| **TOTAL COMPREHENSIVE INCOME** | **₱258,578,771** | ₱183,449,471 |

*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 27) | Unappropriated Fund Balance | Reserve for Fluctuation in Value of Available-for-Sale Financial Assets (Note 10) | Remeasurement of Actuarial gains/losses | Total |
|---|---|---|---|---|---|
| **At January 1, 2013** | | | | | |
| As previously reported | **₱193,909,179** | **₱835,139,084** | **₱26,081,034** | **₱–** | **₱1,055,129,297** |
| Effect of adoption of revised PAS 19 (Note 2) | – | **577,754** | – | **(28,080,131)** | **(27,502,377)** |
| **At January 1, 2013 as restated** | **₱193,909,179** | **₱835,716,838** | **₱26,081,034** | **(₱28,080,131)** | **₱1,027,626,920** |
| Appropriation during the year (Notes 11 and 27) | **91,700,000** | **(91,700,000)** | – | – | – |
| Reversal of appropriation | **(68,260,015)** | – | – | – | **(68,260,015)** |
| Excess of revenue over expenses | – | **245,974,546** | – | – | **245,974,546** |
| Other comprehensive income (Note 10) | – | – | **13,703,658** | **(1,099,433)** | **12,604,225** |
| Total comprehensive income | – | **245,974,546** | **13,703,658** | **(1,099,433)** | **258,578,771** |
| **Balance at December 31, 2013** | **₱217,349,164** | **₱989,991,384** | **₱39,784,692** | **(₱29,179,564)** | **₱1,217,945,676** |
| At January 1, 2012 | | | | | |
| As previously reported | ₱170,995,819 | ₱652,109,642 | ₱36,560,533 | ₱– | ₱858,937,394 |
| Effect of adoption of revised PAS 19 (Note 2) | – | (364,300) | – | (15,124,245) | (14,759,945) |
| At January 1, 2012 as restated | ₱170,995,819 | ₱651,745,342 | ₱36,560,533 | (₱15,124,245) | ₱ 844,177,449 |
| Appropriation during the year (Notes 11 and 26) | 23,500,000 | (23,500,000) | – | – | – |
| Reversal of appropriation | (586,640) | 586,640 | | – | – |
| Excess of revenue over expenses | – | 206,884,856 | – | – | 206,884,856 |
| Other comprehensive income (Note 10) | – | – | (10,479,499) | (12,955,886) | (23,435,385) |
| Total comprehensive income | – | 206,884,856 | (10,479,499) | (12,955,886) | 183,449,471 |
| Balance at December 31, 2012 | ₱193,909,179 | ₱835,716,838 | ₱26,081,034 | (₱28,080,131) | ₱1,027,626,920 |

*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 | |
|---|---|---|
| | **2013** | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Excess of revenue over expenses | **₱279,375,170** | ₱242,871,613 |
| Adjustments for: | | |
| Increase in aggregate reserves (Note 16) | **503,908,891** | 487,904,840 |
| Depreciation (Note 12) | **5,521,528** | 6,191,876 |
| Loss on disposal of asset | **253,262** | – |
| Realized gain on investments in mutual funds (Note 10) | **–** | (30,518,460) |
| Fair value loss (gains) from financial assets at fair value through profit or loss (Note 9) | **(780,000)** | 220,000 |
| Provision (reversal of provision) for bad debts (Note 8) | **(1,136,911)** | 1,560,570 |
| Equity in net earnings of an associate (Note 13) | **(4,409,185)** | (2,027,806) |
| Amortization | **(5,634,562)** | (41,173,767) |
| Interest income | **(167,003,125)** | (179,933,784) |
| Cash generated from operations before changes in working capital | **610,095,068** | 485,095,082 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Loans and receivables | **(146,318,492)** | 13,202,800 |
| Other assets | **(545,266)** | (1,994,786) |
| Increase (decrease) in: | | |
| Retirement savings fund | **343,928,767** | 272,944,890 |
| Net pension liability | **4,532,272** | 857,655 |
| Accounts payable and accrued expenses | **(92,988,139)** | 103,336,689 |
| Utilization of appropriation | **(68,260,015)** | – |
| Net cash flows provided by operating activities | **650,444,195** | 873,442,330 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | **167,946,256** | 191,154,264 |
| Cash dividends received | **3,274,510** | – |
| Acquisitions of: | | |
| Held-to-maturity investments (Note 11) | **(832,256,047)** | (662,757,592) |
| Investments in associates (Note 13) | **(261,483,896)** | – |
| Property and equipment (Note 12) | **(76,498,499)** | (44,707,265) |
| Available-for-sale financial assets (Note 10) | **(35,566,400)** | (171,080,805) |
| Short-term investments (Note 7) | **(2,537,848)** | (9,251,552) |
| Proceeds from sale/maturities of: | | |
| Held-to-maturity investments (Note 11) | **225,441,057** | 388,876,922 |
| Available-for-sale financial assets (Note 10) | **7,500,000** | 49,257,237 |
| Property and equipment | **–** | 563,100 |
| Short-term investments (Note 7) | **–** | 25,493,133 |
| Taxes paid | **(33,400,624)** | (35,986,757) |
| Net cash flows used in investing activities | **(837,581,491)** | (268,439,315) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(187,137,296)** | 605,003,015 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **829,704,731** | 224,701,716 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱642,567,435** | ₱829,704,731 |

*See accompanying Notes to Financial Statements.*

# 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.

The accompanying financial statements of the Association were authorized for issue by the Board of Trustees on May 31, 2014.

## 2. Basis of Preparation

The Association's 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 and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

<u>Statement of Compliance</u>
The financial statements of the Association 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 years except for the adoption of the following amended PFRSs which became effective beginning January 1, 2013.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  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, *Financial Instruments: Presentation*. 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.

  The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments did not have an impact on the Association's financial position or performance since the Association did not have financial instruments that are set off in accordance with criteria in PAS 32.

- PFRS 10, *Consolidated Financial Statements*
  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. The amendments did not have an impact on the Association's financial position or performance since the Association does not have control on its affiliates.

- PFRS 11, *Joint Arrangements*
  It replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Nonmonetary Contributions by Venturers*. It also 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. The standard does not apply to the Association since the Association has not entered into any joint arrangements.

- *PFRS 12, Disclosure of Interest in Other Entities*
  It includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all 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. The amendments affect disclosures only and have no impact on the Association's financial position or performance (see Note 13).

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The amendments affect disclosures only and have no impact on the Association's financial position or performance since the Association does not have financial assets or liabilities measured at fair value.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)* (Amendments)
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment are applied retrospectively and resulted to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits* (Revised)
  On January 1, 2013, the Association adopted the Revised PAS 19 Employee Benefits. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in the statement of comprehensive income when incurred.

  Prior to adoption of the Revised PAS 19, the Association recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets, and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon the adoption of the revised PAS 19, the Association changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Association's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

| Increase (Decrease) in: | **December 31 2012** | January 1 2012 |
|---|---|---|
| *Statements of Financial Position* | | |
| Net pension liability | **₱27,502,377** | ₱15,488,545 |
| Other comprehensive income | **(28,080,131)** | (15,124,245) |
| Retained earnings | **577,754** | (364,300) |

| Increase (Decrease) in: | **2012** |
|---|---|
| *Statements of comprehensive income* | |
| Pension expense | **₱942,054** |
| Net income | **942,054** |
| Total comprehensive income | **(12,995,886)** |

The adoption did not have an impact on the Association's statements of cash flows.

*Change of presentation*
Upon adoption of the Revised PAS 19, the presentation of the statement of comprehensive income was updated to reflect these changes. Net interest is now shown under the interest expense line item (previously under salaries, wages and employee benefits). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability. In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, JCEs and associates in the separate financial statements. The amendment did not have an impact on the Association's financial position or performance.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment affects disclosures only and has no impact on the Association's financial position or performance (see Note 13).

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). The interpretation is not relevant to the Association as the Association is not involved in mining activities.

The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Association as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendment did not have impact on the Association's financial statements since the comparative information disclosures are already in accordance with the requirements of revised PAS 1.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment did not have any impact on the Association's financial position or performance since the Association does not have this type of equipment.

- PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment did not have an impact on the Association's financial position or performance since there were no transactions pertaining to distribution to holders of equity instruments.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment did not have any significant impact on the Association's financial position or performance since it is not required to issue interim financial statements nor any segment information.

<u>Standards Issued but not yet Effective</u>
Enumerated below are standards issued but not yet effective up to the dates of issuance of the Association's financial statements. The Association will adopt the relevant standards when they become effective. The Association does not expect the adoption of these new and amended PFRS to have significant impact on its financial statements.

*Effective 2014*

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments 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.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- *Investment Entities* (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. The amendment will not have any impact on the Association's financial statements.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Association shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Association's financial position or performance.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment will not have any impact on the Association's financial position or performance.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent Association of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments affect disclosures only and have no impact on the Association's financial position or performance.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments have no impact on the Association's financial position or performance since it is not using revaluation method.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Association as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment has no significant impact on the Association's financial position or performance.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment has no significant impact on the Association's financial position or performance since it has no investment property.

*Interpretation with Deferred Effectivity Date*

- 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. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

*No effective date yet*

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology.

## 4. Summary of Significant Accounting Policies

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 months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

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 trade date.

*Initial recognition of financial instruments*

Financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments 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: held-to-maturity (HTM) investments, AFS investments, FVPL investments and receivables. The Association classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

*Fair Value Measurement*
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Association.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Association uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Association determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

*Loan and 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 allowance for impairment losses. Gains and losses are recognized in the statement of comprehensive income when the receivables are derecognized or impaired based on comparison with fair value.

*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 comprehensive 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.

*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.

These investments are initially recorded at cost, being the fair value of the consideration paid for the acquisition of the investment, including all transaction costs directly attributable to the acquisition. After initial recognition, 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 comprehensive 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 comprehensive income when the right of payment has been established.

The losses arising from impairment of such investments are recognized as "Provision for impairment losses" included under "Operating expenses" in the Association's statement of comprehensive income.

As of December 31, 2013, AFS financial assets include investment in mutual fund and investment in unquoted and quoted preferred shares. Investments in mutual fund is initially recorded at fair value and revalued at year end in reference to published net asset value. The investments in quoted and unquoted preferred shares are initially recorded at cost, being the fair value of the investment at the time of acquisition. The investment in unquoted preferred shares 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. The investments in quoted preferred shares are carried at their market values.

*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 comprehensive 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.

*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.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets
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 comprehensive 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 comprehensive 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 comprehensive 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 comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive 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 comprehensive income.

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

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

Where the Association has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks 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, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Association's statement of comprehensive income.

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 comprehensive income. The unamortized acquisition costs are shown as DAC in the Assets Section of the statement of financial position.

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 comprehensive income.

Investments in Associates
Investments in CARD MRI Information Technology, Inc. (CMIT), BotiCARD, Inc. (BotiCARD), and CARD Pioneer Microinsurance Inc. (CPMI), 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 comprehensive income reflects the Association’s share of the results of the operations of the investee. Unrealized gains arising from inter Association 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, are 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 comprehensive income.

Impairment of Nonfinancial Assets
The Association assesses at each end of the reporting period whether there is an indication that property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Association makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each end of the reporting period 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. That 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 statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods 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 when collected. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue. The Association collects its premiums through the following affiliates that are considered collecting institutions: (a) CARD BANK, (b) CARD Inc., (c) CARD SME Bank and (d) Rizal Rural Bank.

*Contribution income - AKAP*
Contribution income - AKAP pertains to the contribution received for the health care program introduced by the Association in which the members are given the privilege to use the facilities of affiliated hospitals. This is valid for one (1) year and the Association assumes the risk of funding the member's healthcare services and related administrative costs. Contributions received are recognized as revenue over the period of agreement.

*Surrender charge*
Surrender charge pertains to the fee imposed by the Association for the cancellation of the member's policy. This is intended for the administration costs incurred by the Association. Surrender charge is recognized when earned.

*Interest income*
Interest on interest-bearing placements and securities are recognized based on the accrual accounting using the effective interest rate (EIR).

*Other income*
Income from other sources is recognized when earned.

<u>Insurance Contract Liabilities</u>
*Life insurance contract liabilities*
Life insurance contract 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.

*Loan redemption contract liabilities*
Loan redemption contract liabilities are recognized when the contracts are entered into and the premiums are recognized. The reserve for loan redemption contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used are based on 60% of gross premiums of the Association for the year.

*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 comprehensive income initially by establishing a provision for losses arising from the liability adequacy tests.

<u>Claim Costs</u>
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.

<u>AKAP Healthcare Benefits</u>
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.

<u>Expense Recognition</u>
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

*Benefits and claims*
Life insurance claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued as liabilities.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general and administrative expenses directly attributable to the claims function.

*General and administrative expenses*
Expenses consist of costs of administering the business. These are recognized as expenses as incurred.

<u>Defined benefit plan</u>
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service cost, past service cost and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Association. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

<u>Leases</u>
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 asset 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.

*The Association 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 expense in the statement of comprehensive 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.

*The Association as a lessor*
Leases where the Association retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

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 End of the Reporting Period
Any post period year-end event that provides additional information about the Association's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Any post year-end event that is not adjusting event, is disclosed when material to the financial statements.

## 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 maturities 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 ₱3,741.08 million and ₱3,128.63 million as of December 31, 2013 and 2012, respectively (Note 11). As of December 31, 2013 and 2012, the fair value of HTM investments amounted to ₱3,957.89 million and ₱3,355.71 million, respectively (Note 11).

*Operating leases - Association as lessee*
The Association has entered into lease agreements related to various properties for its head office and provincial offices. The Association has determined that the lessors retain all significant risks and rewards of ownership of these properties and thus accounts for these as operating leases.

*Operating leases - Association as lessor*
The Association has entered into commercial property leases. The Association has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases. The rental income is included in “Others” in statement of comprehensive income.

*Classification of financial assets*
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 value of AFS financial assets not quoted in an active market amounted to ₱171.19 million and ₱143.13 million as of December 31, 2013 and 2012, 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:

| | **2013** | 2012 |
|---|---:|---:|
| **Financial assets** | | |
| Financial assets at FVPL (Note 9) | **₱21,040,000** | ₱20,260,000 |
| AFS financial assets (Note 10) | **514,082,289** | 472,312,231 |

The fair values of the Association’s financial instruments follow (Note 25):

| | **2013** | 2012 |
|---|---:|---:|
| Financial assets | **₱5,436,773,085** | ₱4,829,047,849 |
| Financial liabilities | **70,602,938** | 174,381,361 |

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, 2013 and 2012, 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):

| | **2013** | 2012 |
|---|---|---|
| Property and equipment | **₱139,431,853** | ₱68,708,142 |
| Accumulated depreciation | **17,965,055** | 13,201,744 |

*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 ₱227.18 million and ₱80.67 million as of December 31, 2013 and 2012, respectively (Note 8). Allowance for impairment losses amounted to ₱1.09 million and ₱2.62 million as of December 31, 2013 and 2012, 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 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, 2013 and 2012, the fair value of AFS financial assets amounted to ₱514.08 million and ₱472.31 million, respectively (Note 10).

*Retirement and other employee benefits*

The cost of defined benefit pension plans and other post employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The net pension liability amounted to ₱33.62 million and ₱27.99 million as at December 31, 2013 and 2012, respectively. Further details are provided in Note 24.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific

*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 25 for the key assumptions used in the estimation of provision for reserves.

## 6. Cash and Cash Equivalents

This account consists:

| | **2013** | 2012 |
|---|---|---|
| Cash on hand | **₱3,405,995** | ₱3,148,181 |
| Cash in banks | **194,469,154** | 40,859,704 |
| Short-term deposits | **444,692,286** | 785,696,846 |
| | **₱642,567,435** | ₱829,704,731 |

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 banks earned interest ranging from 1.25% to 2.00% and 1.00% to 3.00% in 2013 and 2012 respectively. Short-term deposits earned interest ranging from 1.00% to 4.00% and 3.00% to 4.00% in 2013 and 2012, respectively. Interest income earned from this cash and cash equivalent amounted to₱0.61 million and ₱0.66 million in 2013 and 2012, respectively.

## 7. Short-term Investments

Short-term investments amounted to ₱72.92 million and ₱70.38 million as of December 31, 2013 and 2012, respectively.

Short-term investments are money market placements that bear annual interest at rates that ranged from 0.75% to 1.00% in 2013 and in 2012. Interest income earned from these investments amounted to ₱6.60 million and ₱7.62 million in 2013 and 2012, respectively.

## 8. Loans and receivables

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Receivables from related parties (Note 23) | **₱136,032,215** | ₱13,416,360 |
| Accrued interest receivable | **51,223,205** | 46,531,776 |
| Loans receivable (Note 23) | **38,333,333** | 10,000,000 |
| Accounts receivable | **994,279** | 11,114,688 |
| Other receivables | **1,689,919** | 2,225,157 |
| | **228,272,951** | 83,287,981 |
| Less allowance for impairment losses | **1,088,562** | 2,615,863 |
| | **₱227,184,389** | ₱80,672,118 |

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

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱2,615,863** | ₱3,488,405 |
| Provision (reversal of provision) for bad debts | **(1,136,911)** | 1,560,570 |
| Amounts written off | **(390,390)** | (2,433,112) |
| **At December 31** | **₱1,088,562** | ₱2,615,863 |

Receivables from related parties pertain to premiums collected by related parties from the Association's members, commissions and claims paid on behalf of CARD MRI insurance agency (CAMIA) (Note 23). This is generally on 1-to-30 day terms.

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

In 2013, the Association granted funding assistance to CARD Employees Multi-purpose Cooperative (EMPC) and CARD Leasing and Finance for ₱20.00 million each for use in support of their operations. EMPC and CARD Leasing and Finance loans bear 5.00% interest per annum with maturity on October 28, 2016 and November 5, 2016, respectively. The outstanding loan balance with EMPC and CLFC as of December 31, 2013 amounted to ₱18.33 million and ₱20.00 million respectively.

Accounts receivable pertains to receivables from its members due to overpayment made on the claims and benefits given by the Association.

Other receivables consist of cash advances of officers and employees.

As of December 31, 2013 and 2012, allowance for impairment losses for receivables determined based on specific identification and assessment follows:

| | Accounts Receivable | Other Receivables | Total |
|---|---|---|---|
| At January 1, 2012 | ₱156,430 | ₱3,331,975 | ₱3,488,405 |
| Provision for impairment losses | 1,513,057 | 47,513 | 1,560,570 |
| Amounts written off | (8,445) | (2,424,667) | (2,433,112) |
| At December 31, 2012 | **1,661,042** | **954,821** | **2,615,863** |
| Bad debts recovery | **(671,358)** | **(465,553)** | **(1,136,911)** |
| Amounts written off | **(291,506)** | **(98,884)** | **(390,390)** |
| **At December 31, 2013** | **₱698,178** | **₱390,384** | **₱1,088,562** |

## 9. Financial Assets at FVPL

As of December 31, 2013, financial assets at FVPL consist of San Miguel Corporation preferred shares. The rollforward of these investments follows:

| | 2013 | 2012 |
|---|---|---|
| At January 1 | **₱20,260,000** | ₱20,480,000 |
| Fair value gain (loss) from FVPL financial assets | **780,000** | (220,000) |
| At December 31 | **₱21,040,000** | ₱20,260,000 |

There were no acquisitions of financial assets at FVPL in 2013 and 2012.

## 10. Available-for-Sale Financial Assets

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Quoted securities - at fair value | | |
| Mutual funds | **₱266,743,554** | ₱254,189,856 |
| Preferred shares | **76,147,335** | 74,997,375 |
| | **342,890,889** | 329,187,231 |
| Unquoted securities - at cost | | |
| Preferred shares | **171,191,400** | 143,125,000 |
| | **₱514,082,289** | ₱472,312,231 |

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

| | Quoted Equity Securities | Unquoted Equity Securities | Investments in Mutual Funds | Total |
|---|---|---|---|---|
| At January 1, 2012 | ₱– | ₱127,500,000 | ₱202,949,702 | ₱330,449,702 |
| Additions | 74,997,375 | 15,625,000 | 80,458,430 | 171,080,805 |
| Fair value gains | – | – | 20,038,961 | 20,038,961 |
| Disposals | – | – | (49,257,237) | (49,257,237) |
| **At December 31, 2012** | **74,997,375** | **143,125,000** | **254,189,856** | **472,312,231** |
| **Additions** | **–** | **35,566,400** | **–** | **35,566,400** |
| **Fair value gains** | **1,149,960** | **–** | **12,553,698** | **13,703,658** |
| **Disposals** | **–** | **(7,500,000)** | **–** | **(7,500,000)** |
| **At December 31, 2013** | **₱76,147,335** | **₱171,191,400** | **₱266,743,554** | **₱514,082,289** |

Investments in quoted securities pertain to the Association's investments in San Miguel Corporation preferred shares amounting to ₱75 million as of December 31, 2013 and 2012.

Investments in unquoted preferred shares pertain to the Association's investments in CARD Bank and Responsible Investment for Solidarity and Empowerment (RISE) Financing Association, Inc.

The Association received 31,479 stock dividend preferred shares of CARD Bank, Inc., an affiliated Microfinance-Oriented Rural Bank, in 2013 amounting to ₱6.29 million. The Association owns 818,457 and 678,125 preferred shares of CARD Bank, Inc. amounting to ₱163.69 million and ₱135.63 million as of December 31, 2013 and 2012, respectively.

The Association owns 1,000 shares of Responsible Investment for Solidarity and Empowerment (RISE) Financing Association, Inc. preferred shares amounting to ₱7.50 million as of December 31, 2013 and 2012.

The reserve for fluctuation in value of the investments in mutual funds amounted to ₱39.78 million and ₱26.08 million in 2013 and 2012, respectively. This is presented as "Other comprehensive income" in the statements of financial position.

In 2013 and 2012, the Association received dividends amounting to ₱133.6 million and ₱143.9 million, respectively.

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

| | **2013** | 2012 |
|---|---|---|
| Beginning balance | **₱26,081,034** | ₱36,560,533 |
| Transfer to profit or loss | **–** | (30,518,460) |
| Other comprehensive income | | |
| Fair value gains on available-for-sale financial assets | **13,703,658** | 20,038,961 |
| | **₱39,784,692** | ₱26,081,034 |

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

As of December 31, 2013 and 2012, the carrying amounts and fair values of these securities follow:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Fixed treasury notes | **₱2,588,058,867** | **₱2,708,194,402** | ₱2,075,523,742 | ₱2,216,433,998 |
| Retail treasury bonds | **732,268,086** | **799,036,375** | 559,774,540 | 617,409,174 |
| Government bonds | **86,713,610** | **94,284,682** | 116,146,828 | 127,245,849 |
| Corporate bonds | **207,142,673** | **219,122,617** | 250,288,574 | 256,660,717 |
| Guaranty fund | **126,900,679** | **137,250,308** | 126,900,679 | 137,964,854 |
| | **₱3,741,083,915** | **₱3,957,888,384** | ₱3,128,634,363 | ₱3,355,714,592 |

These investments bear annual interest rates that ranged from 1.625% to 9.00% in 2013 and 4.54% to 12.00% in 2012 and will mature between one (1) and ten (10) years from the statements of financial position date. Interest income from these investments amounted to ₱126.39 million and ₱154.89 million in 2013 and 2012, respectively.

The carrying value of HTM investments follows:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱3,128,634,363** | ₱2,813,579,926 |
| Additions | **832,256,047** | 662,757,592 |
| Amortization of bond discount | **5,634,562** | 41,173,767 |
| Maturities | **(225,441,057)** | (388,876,922) |
| **At December 31** | **₱3,741,083,915** | ₱3,128,634,363 |

As at December 31, 2013 and 2012, HTM investments include government securities classified as guaranty fund amounting to ₱126.90 million (Note 27). 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.

## 12. **Property and Equipment -** Net

The composition and movements in this account follow:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Transportation equipment** | **Computer and office equipment** | **Office furniture and fixtures** | **Building** | **Construction in progress** | **Total** |
| **Cost** | | | | | | | |
| At January 1 | ₱51,845,250 | ₱6,292,944 | ₱17,815,639 | ₱963,528 | ₱4,992,527 | ₱– | ₱81,909,888 |
| Additions | 64,786,657 | 211,315 | 1,665,127 | 488,067 | – | 9,347,332 | 76,498,498 |
| Disposals | – | (695,385) | (298,095) | (18,000) | – | – | (1,011,480) |
| At December 31 | 116,631,907 | 5,808,874 | 19,182,671 | 1,433,595 | 4,992,527 | 9,347,332 | 157,396,906 |
| **Accumulated Depreciation and Amortization** | | | | | 1,076,453 | | |
| At January 1 | – | 2,130,290 | 9,993,347 | 578,855 | 499,252 | – | 13,201,744 |
| Depreciation | – | 1,313,874 | 3,154,643 | 475,810 | 577,201 | – | 5,521,528 |
| Disposals | – | (695,276) | (74,458) | 11,515 | – | – | (758,219) |
| At December 31 | – | 2,748,888 | 13,073,532 | 1,066,180 | 1,076,453 | – | 17,965,053 |
| **Net Book Value** | ₱116,631,907 | ₱3,059,986 | ₱6,109,139 | ₱367,415 | ₱3,916,074 | ₱9,347,332 | ₱139,431,853 |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Transportation equipment | Computer and office equipment | Office furniture and fixtures | Building | Construction in progress | Total |
| Cost | | | | | | | |
| At January 1 | ₱15,634,765 | ₱3,814,232 | ₱13,920,307 | ₱639,590 | ₱4,992,527 | ₱– | ₱39,001,421 |
| Additions | 36,210,485 | 3,831,895 | 4,340,947 | 323,938 | – | – | 44,707,265 |
| Disposals | – | (1,353,184) | (445,616) | – | – | – | (1,798,800) |
| At December 31 | 51,845,250 | 6,292,943 | 17,815,638 | 963,528 | 4,992,527 | – | 81,909,886 |
| Accumulated Depreciation and Amortization | | | | | | | |
| At January 1 | – | 1,812,343 | 6,076,459 | 356,766 | – | – | 8,245,568 |
| Depreciation | – | 1,207,947 | 4,262,588 | 222,089 | 499,252 | – | 6,191,876 |
| Disposals | – | (890,000) | (345,700) | – | – | – | (1,235,700) |
| At December 31 | – | 2,130,290 | 9,993,347 | 578,855 | 499,252 | – | 13,201,744 |
| Net Book Value | ₱51,845,250 | ₱4,162,653 | ₱7,822,291 | ₱384,673 | ₱4,493,275 | ₱– | ₱68,708,142 |

Fully depreciated property and equipment with total cost of to ₱2.24 million and ₱7.82 million as of December 31, 2013 and 2012, respectively, are still in active use. Depreciation expense charged against operations amounted to ₱5.52 million and ₱6.19 million in 2013 and 2012, respectively. (Note 21)

## 13. Investments in and Advances to Associates

Details of the Association's investments in associates follow:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Amount** | **Percentage*** | Amount | Percentage* |
| CMIT | **₱20,357,933** | 40.00% | ₱17,756,568 | 30% |
| BotiCARD | **9,363,100** | 39.00% | 7,691,085 | 39% |
| CPMI | **258,345,191** | 47.00% | – | – |
| | **₱288,066,224** | | ₱25,447,653 | |

**Percentage ownership of the Associates in the total outstanding number of shares of the Associates.*

The details of the CMIT investment follow:

| | **2013** | 2012 |
|---|---|---|
| Acquisition cost: | | |
| At January 1 | **₱11,500,000** | ₱11,500,000 |
| Placements | **3,500,000** | – |
| At December 31 | **15,000,000** | 11,500,000 |
| Accumulated equity in net earnings: | | |
| At January 1 | **6,256,568** | 4,972,026 |
| Equity in net earnings | **2,375,874** | 1,284,542 |
| Dividends received | **(3,274,509)** | – |
| At December 31 | **5,357,933** | 6,256,568 |
| | **₱20,357,933** | ₱17,756,568 |

The Association purchased 35,000 common shares of CMIT in 2013 amounting to ₱3.50 million.

In 2013, the Association received dividends amounting to ₱3.27 million. The undistributed accumulated equity in CMIT's net earnings amounted to ₱5.36 million and ₱6.26 million as of December 31, 2013 and 2012, respectively, which are included in the Association's unappropriated fund balance, and are not available for dividend declaration until actually received.

As of December 31, 2013 and 2012, the Association's investment in CMIT amounted to ₱20.36 million and ₱17.76 million, respectively.

The details of the BotiCARD investment as of December 31, 2013 follow:

| | **2013** | 2012 |
|---|---|---|
| Acquisition cost | | |
| At January 1 | **₱6,900,000** | ₱3,900,000 |
| Advances for stock subscription | – | 3,000,000 |
| At December 31 | **6,900,000** | 6,900,000 |
| Accumulated equity in net earnings: | | |
| At January 1 | **791,085** | 47,821 |
| Equity in net earnings | **1,672,015** | 743,264 |
| At December 31 | **2,463,100** | 791,085 |
| | **₱9,363,100** | ₱7,691,085 |

In 2012, the Association deposited ₱3 million to BotiCARD which will be used to subscribe to 600,000 common shares at ₱5 par value. As of December 31, 2013, The Securities and Exchange Commission (SEC) has not yet approved BotiCARD's request for increase in authorized capital stock.

The undistributed accumulated equity in BotiCARD's net earnings of ₱2.46 million and ₱0.80 million as of December 31, 2013 and 2012, which are included in the Association's unappropriated fund balance, are not available for dividend declaration until these are actually received.

As of December 31, 2013 and 2012, the Association's investment in BotiCARD amounted to ₱9.36 million and ₱7.69 million, respectively.

The details of the CARD Pioneer Micro insurance Incorporated (CPMI) investment as of December 31, 2013 follow:

| | **2013** |
|---|---|
| Acquisition cost | |
| At January 1 | **₱–** |
| Placements | **257,983,896** |
| At December 31 | **257,983,896** |
| Accumulated equity in net earnings: | |
| At January 1 | – |
| Equity in net earnings | **361,295** |
| At December 31 | **361,295** |
| | **₱258,345,191** |

On July 16, 2013, the Association entered into a purchase agreement with CARD Pioneer Micro insurance Inc. (CPMI), formerly named as Pioneer Asia Insurance Corporation (PAIC) for the purchase of 2,303,428 shares or 47.00% of CPMI. On September 30, 2013, the consideration paid by Association for its investment in CPMI amounted to ₱257.98 million.

| | **CPMI** |
|---|---|
| Fair value of net assets | **₱548,901,906** |
| Proportionate ownership in the associate | **47%** |
| Consideration paid | **₱257,983,896** |

No goodwill was recognized since the consideration paid is equal to the proportionate ownership in CPMI.

Financial information of the Association's associates follow:

| | **2013** | 2012 |
|---|---|---|
| CMIT | | |
| Total assets | **₱13,209,957** | ₱80,775,554 |
| Total liabilities | **28,476,222** | 21,550,804 |
| Net income | **5,939,686** | 3,211,355 |
| BotiCARD | | |
| Total assets | **28,727,725** | 21,403,965 |
| Total liabilities | **21,537,616** | 11,620,800 |
| Net income | **4,287,219** | 2,477,548 |
| CPMI | | |
| Total assets | **555,975,944** | 307,357,311 |
| Total liabilities | **11,764,731** | 12,776,896 |
| Net income * | **19,243,126** | 11,176,071 |

**CPMI net income from September to December 2013 amounted to ₱768,714*

## 14. Other Assets

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Refundable deposits | **₱4,300,000** | ₱4,300,000 |
| Supplies inventory | **1,958,704** | 984,434 |
| Prepaid rent | **1,416,477** | 1,027,027 |
| Deferred acquisition cost | – | 818,452 |
| Others | **563,193** | 563,195 |
| | **₱8,238,374** | ₱7,693,108 |

Refundable deposits pertain to deposits of the Association to Philam Care and Cocolife for AKAP CARD Health Benefits. These health benefits are given to its members with the privilege of using the facilities of affiliated hospitals with services. Benefits include medical consultation, hospitalization, annual physical exam and medical emergency needs. In February 2012, the Association decided to discontinue the benefit to its members due to unfavorable result in the operation of the Association. The deposits made by the Association will be refunded one year after the expiration of the terms of AKAP CARD Health benefits which is in 2014.

## 15. Accounts Payable and Accrued Expenses

The movement in this account follows:

| | **2013** | 2012 |
|---|---|---|
| Collection fee payable (Note 23) | **₱50,440,961** | ₱151,018,956 |
| Accounts payable - CAMIA (Note 23) | **10,537,230** | 4,298,227 |
| Accrued expenses | **7,242,227** | 5,300,724 |
| Funds held in trust - CAMIA (Note 23) | **801,740** | 2,604,576 |
| Others | **1,580,780** | 368,593 |
| | **₱70,602,938** | ₱163,591,076 |

Collection fee payable pertains to payable of the Association to its members due to cancellation of Daily Hospitalization Income Benefit and payable of the Association for its contribution to its collecting institution (CARD Inc., CARD SME Bank, CARD Bank and Rizal Rural Bank) . These 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 funds held in trust - CAMIA both represent premiums collected from policyholders on behalf of CAMIA. Funds held in trust pertain to unremitted collections to CAMIA for payments of Packaged Assistance in Case of Disaster (PAID) Plan awaiting receipt of accomplished return stubs. The funds held in trust will be transferred to accounts payable - CAMIA upon the receipt of the return stubs. It is non-interest-bearing and is payable on demand.

Other payables are obligations of the Associations to government agencies. This account includes Withholding taxes payable, SSS loan and contribution payable, PAG –IBIG loan and contribution payable, Medicare contribution and Pangarap Savings.

16. **Insurance contract liabilities**

This account consists of:

| | **2013** | 2012 |
|---|---:|---:|
| Life insurance contract liabilities | **₱2,614,321,720** | ₱2,134,530,394 |
| Loan redemption contract liabilities | **122,174,234** | 102,212,477 |
| Claims payable | **15,326,342** | 10,790,284 |
| Unearned contribution income – AKAP | **–** | 380,250 |
| | **₱2,751,822,296** | ₱2,247,913,405 |

The movements in life insurance contract liabilities follow:

| | **2013** | 2012 |
|---|---:|---:|
| At January 1 | **₱2,134,530,394** | ₱1,649,482,360 |
| Premiums received | **683,627,310** | 599,265,000 |
| Liability released for payments of death, maturity and surrender benefits and claims | **(203,835,984)** | (114,216,966) |
| At December 31 | **₱2,614,321,720** | ₱2,134,530,394 |

This account represents reserves for life 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.

The movements in loan redemption contract liabilities follow:

| | **2013** | 2012 |
|---|---:|---:|
| At January 1 | **₱102,212,477** | ₱99,355,671 |
| 60% of increase in premiums received | **19,961,757** | 2,856,806 |
| At December 31 | **₱122,174,234** | ₱102,212,477 |

This account represents reserves for loan redemption insurance computed on the basis of a prudent prospective actuarial valuation method where the assumptions used are based on 60% of gross premiums of the Association for the year.

The loan redemption insurance covers the outstanding loan balance of members from Center for Agriculture and Rural Development (CARD) Inc., CARD SME Bank, CARD Bank and Rizal Rural Bank in case of death of a member-borrower. The Association also records reserves on loan redemption insurance. As of December 31, 2013 and 2012, loans covered by the Association's loan redemption insurance amounted to ₱27.41 billion and ₱22.84 billion, respectively.

The movements in unearned contribution income - AKAP follow:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱380,250** | ₱6,220,273 |
| Liability released for payments of death, maturity and surrender benefits and claims | **(380,250)** | (5,840,023) |
| At December 31 | **₱–** | ₱380,250 |

Unearned contribution income - AKAP represents proportion of written premiums, gross of commissions payable that are attributable to subsequent periods. In February 2012, the Association decided to discontinue the sale of the product due to its unfavorable performance. The deposits made by the Association will be refunded one year after the expiration of the terms of AKAP CARD Health benefits in 2014.

The rollforward analysis of claims payable follows:

| | **Claims payable** |
|---|---|
| At January 1,2012 | ₱11,365,401 |
| Arising during the year | 10,767,531 |
| Paid/utilized | (11,342,648) |
| At December 31, 2012 | **10,790,284** |
| Arising during the year | **15,889,110** |
| Paid/utilized | **(11,353,052)** |
| **At December 31, 2013** | **₱15,326,342** |

## 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. It can be availed of at the age of 65 if the member completed a minimum of five (5) consecutive years of membership in the Association. 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:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **₱1,236,694,881** | ₱963,749,991 |
| Contribution | **379,797,402** | 332,801,487 |
| Interest | **64,214,577** | 43,270,842 |
| Claims and expenses | **(100,083,212)** | (103,127,439) |
| **At December 31** | **₱1,580,623,648** | ₱1,236,694,881 |

The allocation of interest income for retirement savings fund is equivalent to 4% of the beginning balance of the account plus contribution from members during the year. The actual interest income earned reduced by the computed amount of interest in retirement savings fund is allocated to interest income account.

## 18. Gross premiums on insurance contracts

The gross earned premiums consist of the following:

| | **2013** | 2012 |
|---|---|---|
| Gross earned premiums on insurance contracts | | |
| Life insurance premiums | **₱1,139,378,850** | ₱998,775,000 |
| Loan insurance premiums | **203,623,724** | 170,354,129 |
| Daily health income benefits | **–** | 4,027,340 |
| | **₱1,343,002,574** | ₱1,173,156,469 |

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. The member's contribution is ₱15 every week.

The loan redemption insurance covers the outstanding loan balance of members to CARD Micro-finance institutions namely: CARD Inc, CARD Bank, CARD SME Bank and Rizal Rural Bank in case of death. Under this program, the member contributes 1.5% per annum of his/her outstanding loan balance to be recognized by the Association as gross premiums.

The daily health income benefit pertains to a new benefit introduced by the Association during the last quarter of 2012. This pertains to hospitalization benefit of the member for a maximum of ₱2, 000 or 10 days of hospital confinement per year, and up to a maximum of ₱20,000 or 100 hospital confinement days for the entire duration of membership. The member's contribution is ₱10 every week. Although, the benefit was introduced at the end of December 2012, the management decided to discontinue the benefit due to claims from its members that reduce the Association's capability to operate efficiently.

19. **Interest income**

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Interest income on: | | |
| Held-to-maturity investments (Note 11) | **₱157,993,139** | ₱169,584,130 |
| Short term investments (Note 7) | **4,172,114** | 3,616,869 |
| Long term investments (Note 8) | **4,074,039** | 5,907,036 |
| Cash and cash equivalents (Note 6) | **763,833** | 825,749 |
| | **₱167,003,125** | ₱179,933,784 |

20. **Direct expenses**

This pertains to Commission and Network access fees amounting to ₱0.81 million and ₱1.55 million in 2013 and 2012 respectively.

Commission and network access fees pertain to fees paid by the Association to Philam Care and Cocolife for AKAP CARD Health Benefits in which the members are given the privilege to use the facilities of affiliated hospitals. This is valid for one (1) year and the Association assumes the risk of funding the member's healthcare services and related administrative costs.

21. **General and administrative expenses**

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| Transportation and travel | **₱78,866,752** | ₱73,876,319 |
| Salaries and allowances | **57,342,335** | 43,605,258 |
| Donation and contribution | **39,203,478** | 59,507,427 |
| Program, monitoring and evaluation | **11,330,196** | 11,413,611 |
| Pension expense (Note 24) | **10,598,057** | 4,985,354 |
| Supplies | **10,585,563** | 10,111,200 |
| Training and development | **7,521,663** | 10,766,654 |
| Interest expense and bank charges | **6,904,277** | 787,726 |
| Professional fees | **6,153,469** | 11,306,730 |
| Rental (Note 22) | **5,612,219** | 5,132,132 |
| Depreciation (Note 12) | **5,521,528** | 6,191,876 |
| Communication | **5,498,717** | 5,252,405 |
| Meetings and seminars | **3,930,418** | 4,683,812 |
| Taxes and licenses | **3,488,756** | 790,600 |
| Insurance | **3,349,207** | 3,787,403 |
| Security and janitorial services | **2,934,664** | 2,330,517 |
| Repairs and maintenance | **1,998,528** | 1,542,274 |
| Light and water | **1,547,995** | 1,482,313 |
| Membership dues | **1,196,890** | 950,297 |

(Forward)

| | 2013 | 2012 |
|---|---|---|
| Entertainment, amusement and recreation | **369,446** | 308,984 |
| Research and documentation | **8,860** | 10,430 |
| Provision for impairment losses (Note 8) | − | 1,560,570 |
| Miscellaneous | **303,064** | 32,288 |
| | **₱264,266,082** | ₱260,416,180 |

## 22. Lease Commitments

Operating leases - Association as lessee

In 2012, the Association entered into operating lease agreements with various lessors. Rent expense included in the statements of comprehensive income in 2013 and 2012 amounted to ₱5.61 million and ₱5.13 million, respectively. As of December 31, 2013, the future minimum rentals payable for the existing contracts amounted to a total of ₱0.48 million and are payable within one year.

Operating leases - Association as lessor

The Association entered into operating lease agreements with its related parties. Rent income included in the statements of comprehensive income under “Other income” account in 2013 and 2012 amounted to ₱0.28 million and ₱0.35 million, respectively. As of December 31, 2013, the minimum rentals receivable for the existing contracts amounted to a total of ₱0.97 million and are due within one year.

## 23. 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 as follow:

**December 31, 2013**

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| **Accounts payable** | | | | | |
| **(1) CARD MRI Insurance Agency, Inc. - Common control** | **₱85,462,879** | **₱10,537,230** | **Premiums uncollected from CAMIA products** | **On-demand; noninterest-bearing** | **Unsecured** |
| **(2) CARD MRI Development Institute, Inc. - Common control** | **278,873** | **278,873** | **Unpaid expenses for administration and training cost of staffs** | **On-demand; noninterest-bearing** | **Unsecured** |
| **(3) CARD, Inc. - affiliate** | **149,297,624** | **23,507,396** | **Unpaid claims and expenses incurred** | **On-demand; noninterest-bearing** | **Unsecured** |

**(Forward)**

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| (4) CARD MRI Information Technology, Inc. – Associate | ₱179,260 | ₱60 | Unpaid services provided in maintaining the Association's system | On-demand; noninterest-bearing | Unsecured |
| (5) CARD SME - Common control | 3,567,118 | 3,519,400 | Unpaid claims and expenses incurred | On-demand; noninterest-bearing g | Unsecured |
| (6) CARD BDSFI - Common control | 1,057,580 | 1,052,490 | Unpaid administration and training incurred | On-demand; noninterest-bearing | Unsecured |
| (7) BotiCARD – Associate | 2,309,565 | 2,309,565 | Unpaid medicines and administrative expenses incurred | On-demand; noninterest-bearing | Unsecured; no impairment |
| (8) CARD EMPC - Common control | 14,800 | – | Unpaid administrative expenses incurred for Association's staff | On-demand; noninterest-bearing | Unsecured |
| (9) Rizal Rural Bank- Common control | 4,628 | – | Unpaid claims and expenses incurred | On-demand; noninterest-bearing | Unsecured |
| (10) CARD Leasing & Finance (LFC)– Common control | 314,758 | 46,778 | Unpaid expenses incurred in leasing Association's equipment | On-demand; noninterest-bearing | Unsecured; no impairment |
| (11) CARD, Inc. - affiliate | 4,373,287 | 79,233 | Unpaid claims and expenses incurred | On-demand; noninterest-bearing | Unsecured |
| **Total** | | 41,331,025 | | | |

**Accounts receivable**

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| (1) CARD, Inc. - affiliate | 293,745,744 | 18,343,131 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (2) CARD MRI Insurance Agency, Inc. - Common control | 142,714,950 | 105,530,386 | Claims unpaid to members who avail CAMIA products | On-demand; noninterest-bearing | Unsecured; no impairment |
| (3) CARD MRI Development Institute, Inc. - Common control | 283,369 | – | Unremitted collection of members (CARD MRI Staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (4) CARD, Inc. - affiliate | 580,016,156 | 12,174,571 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |

**(Forward)**

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| (5) CARD MRI Information Technology, Inc – Associate | ₱96,350 | ₱367 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (6) CARD SME - Common control | 118,758,596 | – | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (7) CARD BDSFI - Common control | 4,583,184 | 7,874 | Unpaid collection of members (CARD BDSFI staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (8) BotiCARD – Associate | 41,519 | 16,325 | Unpaid collection of members (BOTICARD staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (9) CARD EMPC - Common control | 119,392 | 3,811 | Unpaid collection of members (CARD EMPC staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (10) Rizal Rural Bank-Common control | 12,431,517 | 2,157 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (11) CARD Leasing & Finance (LFC)– Common control | 25,023 | 24,593 | Unremitted collection of members (CARD LFC staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| **Total** | | ₱136,103,215 | | | |
| **Held in trust** | | | | | |
| (1) CARD MRI Insurance Agency, Inc. - Common control | 3,795,686 | 801,740 | Premiums uncollected without return stub | On-demand; noninterest-bearing | Unsecured |
| **Rental income** | | | | | |
| (1) CARD MRI Insurance Agency, Inc. - Common control | 95,000 | – | Income received from office space rental | On-demand; noninterest-bearing | Unsecured; no impairment |
| (2) CARD MRI Information Technology, Inc – Associate | 142,500 | – | Income received from office space rentals | On-demand; noninterest-bearing | Unsecured |
| (3) BotiCARD – Associate | 50,000 | – | Income received from office space rentals | On-demand; noninterest-bearing | Unsecured |
| **Total** | 287,500 | | | | |

(Forward)

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | |
| (1) CARD MRI Development Institute, Inc. - Common control | ₱1,435.351,950 | ₱240,999,684 | Various | On demand; interest at 2% for regular savings deposit and 5% to 6% for time deposit% | Unsecured; no impairment |
| (2) CARD MRI Information Technology, Inc – Associate | 318,680,445 | 90,823,806 | Various | On-demand; interest at 2.00% for regular savings deposit and 4.00% for time deposit | Unsecured; no impairment |
| (3) Rizal Rural Bank- Common control | 33,405,262 | 21,076,207 | Various | On-demand; interest at 2.00% for regular savings deposit and 4.00% for time deposit | Unsecured; no impairment |
| Total | | 352,899,697 | | | |
| **Loan receivable** | | | | | |
| (1) CARD Leasing & Finance (LFC)– Common control | 20,000,000 | 20,000,000 | Loans made by CARD LFC | Interest at 5% per annum | Unsecured; no impairment |
| (2) CARD EMPC - Common control | 20,000,000 | 18,333,333 | Loan made by EMPC | On-demand; interest at 5.00% per annum | Unsecured; no impairment |
| **Total** | | 38,333,333 | | | |
| **Interest income** | | | | | |
| (1) Rizal Rural Bank- Common control | 628,121 | – | Income from deposits made (included in cash and cash equivalents) | On-demand; interest at 2.00% for regular savings deposit and 4.00% for time deposit | Unsecured |
| (2) CARD SME - Common control | 982,478 | – | Income received from office space rentals | On-demand; interest at 2.00% for regular savings deposit and 4.00% for time deposit | Unsecured |

**(Forward)**

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| **(3) CARD, Inc. - affiliate** | **₱5,283,709** | **₱–** | **Income from deposits (included in cash and cash equivalents)** | **On demand; interest at 2% for regular savings deposit and 5% to 6% for time deposit%** | **Unsecured** |
| | **6,894,308** | | | | |

December 31, 2012

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| Accounts payable | | | | | |
| (1) CARD MRI Insurance Agency, Inc. - Common control | ₱62,590,055 | ₱4,298,227 | Premiums uncollected from CAMIA products | On-demand; noninterest-bearing | Unsecured |
| (2) CARD MRI Development Institute, Inc. - Common control | 88,878 | 88,878 | Unpaid expenses for administration and training cost of staffs | On-demand; noninterest-bearing | Unsecured |
| (3) CARD, Inc. - affiliate | 93,664,976 | 1,969,433 | Unpaid claims and expenses incurred | On-demand; noninterest-bearing | Unsecured |
| (4) CARD MRI Information Technology, Inc – Associate | – | 179,200 | Unpaid services provided in maintaining the Association's system | On-demand; noninterest-bearing | Unsecured |
| (5) CARD, Inc. - affiliate | 19,047,979 | 54,832 | Unpaid claims and expenses incurred | On-demand; noninterest-bearing | Unsecured |
| (6) CARD SME - Common control | 1,043,474 | 328,476 | Unpaid claims and expenses incurred | On-demand; noninterest-bearing | Unsecured |
| (7) CARD BDSFI - Common control | 5,800 | 5,800 | Unpaid administration and training incurred | On-demand; noninterest-bearing | Unsecured |
| (8) CARD BDSFI - Common control | 2,388,400 | 2,388,400 | Unpaid medicines and administrative expenses incurred | On-demand; noninterest-bearing | Unsecured; no impairment |
| Total | | 9,313,246 | | | |

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| Accounts receivable | | | | | |
| (1) CARD MRI Insurance Agency, Inc. - Common control | 61,635,376 | 11,497,365 | Claims unpaid to members who avail CAMIA products | On-demand; noninterest-bearing | Unsecured; no impairment |
| (2) CARD MRI Development Institute, Inc. - Common control | 65,784 | – | Unremitted collection of members (CARD MRI Staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |

(Forward)

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| (3) CARD, Inc. - affiliate | ₱775,056,338 | ₱1,496,060 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| | 174,483,801 | 179,854 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (4) CARD MRI Information Technology, Inc – Associate | 296,815 | – | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (5) CARD SME - Common control | 48,466,984 | 140,570 | Unremitted collection of members contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (6) CARD BDSFI - Common control | 17,182 | – | Unpaid collection of members (CARD BDSFI staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| | 108,222 | 100,911 | Unpaid collection of members (BOTICARD staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| (7) CARD EMPC - Common control | 5,062 | 1,600 | Unpaid collection of members (CARD EMPC staff) contribution | On-demand; noninterest-bearing | Unsecured; no impairment |
| Total | | 13,416,360 | | | |
| Held in trust | | | | | |
| (1) CARD MRI Insurance Agency, Inc. - Common control | 7,851,782 | 2,604,576 | Premiums uncollected without return stub | On-demand; noninterest-bearing | Unsecured |
| Cash and cash equivalents | | | | | |
| (1) CARD SME - Common control | 153,968,514 | 158,647 | Various | On-demand; interest at 2.00% for regular savings deposit and 4.00% for time deposit | Unsecured; no impairment |
| (2) CARD, Inc. - affiliate | 1,238,386,672 | 5,596,806 | Various | On demand; interest at 2% for regular savings deposit and 5% to 6% for time deposit% | Unsecured; no impairment |
| Total | | 41,331,025 | | | |
| Loan Receivables | | | | | |
| (1) CARD MRI Information Technology, Inc – Associate | 10,000,000 | 10,000,000 | Loans made by CMIT | Interest at 6% per annum | Unsecured; no impairment |

(Forward)

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| Rental income | | | | | |
| (1) CARD MRI Information Technology, Inc – Associate | ₱180,000 | ₱– | Income received from office space rentals | On-demand; noninterest-bearing | Unsecured |
| (2) CARD MRI Insurance Agency, Inc. - Common control | 120,000 | – | Income received from office space rentals | On-demand; noninterest-bearing g | Unsecured; no impairment |
| Total | 300,000 | | | | |

| | Amount | Outstanding | Nature | Terms | Conditions |
|---|---|---|---|---|---|
| Interest income | | | | | |
| (1) CARD SME - Common control | 1,008,704 | – | Income received from deposits (included in cash and cash equivalents) | On-demand; interest at 2.00% for regular savings deposit and 4.00% for time deposit | Unsecured |
| (2) CARD, Inc. - affiliate | 4,779,028 | ₱1,949,798 | Income from deposits (included in cash and cash equivalents) | On demand; interest at 2% for regular savings deposit and 5% to 6% for time deposit% | Unsecured |
| Total | ₱5,787,732 | | | | |

## 24. **Employee Benefits**

The Association maintains. The plan has a projected unit cost format and is financed by the Association. The plan complies with the requirement of Republic Act No. 7641 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.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Association also provides additional post employment healthcare benefits to certain senior employees.

Changes in net defined benefit liability of funded funds are as follows:

| | 2013 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net benefit cost in statement of comprehensive income | | | | | | Remeasurements in other comprehensive income | | | | | |
| | At January 1 | Current service cost | Past service cost | Net interest | Subtotal | Benefits paid | Transfer to plan | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from changes in financial assumptions | Subtotal | Contribution by employer | At December 31 |
| Present value of defined benefit obligation | ₱42,735,900 | ₱9,064,134 | ₱– | ₱2,666,720 | ₱11,730,854 | ₱ (182,321) | ₱932,812 | ₱– | ₱2,900,461 | (₱2,067,985) | ₱832,476 | ₱– | ₱56,049,721 |
| Fair value of plan assets | (14,745,659) | – | – | (1,132,797) | (1,132,797) | 182,321 | (932,812) | 266,957 | – | – | 266,957 | (6,065,785) | (22,427,775) |
| | ₱27,990,241 | ₱9,064,134 | ₱– | ₱1,533,923 | ₱10,598,057 | ₱– | ₱– | ₱266,957 | ₱2,900,461 | (₱2,067,985) | ₱1,099,433 | (₱6,065,785) | ₱33,621,946 |

| | 2012 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net benefit cost in statement of comprehensive income | | | | | | Remeasurements in other comprehensive income | | | | | |
| | At January 1 | Current service cost | Past service cost | Net interest | Subtotal | Benefits paid | Transfer to plan | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumption | Actuarial changes arising from changes in financial assumptions | Subtotal | Contribution by employer | At December 31 |
| Present value of defined benefit obligation | ₱23,320,200 | ₱4,140,248 | ₱– | ₱1,651,070 | ₱5,791,318 | ₱– | ₱352,636 | ₱– | ₱– | ₱13,271,746 | ₱13,271,746 | | ₱42,735,900 |
| Fair value of plan assets | (9,143,500) | – | – | (805,964) | (805,964) | – | (352,636) | (315,860) | – | – | (315,860) | (4,127,699) | (14,745,659) |
| | ₱14,176,700 | ₱4,140,248 | ₱– | ₱845,106 | ₱4,985,354 | ₱– | ₱– | (₱315,860) | ₱– | ₱13,271,746 | ₱12,955,886 | (₱4,127,699) | ₱27,990,241 |

| | At January 1, 2012 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net benefit cost in statement of comprehensive income | | | | | | Remeasurements in other comprehensive income | | | | | |
| | At January 1 | Current service cost | Past service cost | Net interest | Subtotal | Benefits paid | Transfer to plan | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumption | Actuarial changes arising from changes in financial assumptions | Subtotal | Contribution by employer | At December 31 |
| Present value of defined benefit obligation | ₱9,584,400 | ₱1,522,700 | ₱1,946,400 | ₱907,600 | ₱4,376,700 | ₱ (1,234,500) | ₱201,100 | ₱– | ₱– | ₱10,392,500 | ₱10,392,500 | ₱– | ₱23,320,200 |
| Fair value of plan assets | (7,263,500) | – | – | – | – | 1,234,500 | ₱(201,100) | (730,300) | – | – | (730,300) | (2,183,100) | (9,143,500) |
| | ₱2,320,900 | ₱1,522,700 | ₱1,946,400 | ₱907,600 | ₱4,376,700 | ₱– | ₱– | ₱(730,300) | ₱– | ₱10,392,500 | ₱9,662,200 | ₱(2,183,100) | ₱14,176,700 |

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

| | December 31 | | January 1 |
|---|---|---|---|
| | **2013** | 2012 (As restated) | 2012 (As restated) |
| Discount rate | **6.38%** | 6.24% | 7.08% |
| Salary increase rate | **12.00%** | 12.00% | 12.00% |

The fair value of net plan assets by each class is as follows:

| | **31-Dec 2013** | 31-Dec 2012 | 1-Jan 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | **₱12,158,098** | ₱9,930,015 | ₱3,302,004 |
| Equity investments | **141,295** | 477,360 | – |
| Debt investments Government bonds | **8,172,682** | 3,956,590 | 3,944,206 |
| Mutual Funds | **309,504** | 381,694 | – |
| Loans | **1,386,037** | – | – |
| Other (Market Gains / Losses, Accrued Receivables, etc. ) | **260,162** | – | 1,897,290 |
| Fair value of plan assets | **₱22,427,778** | ₱14,745,659 | ₱9,143,500 |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

| | December 31, 2013 | |
|---|---|---|
| | Increase (decrease) | Effect on defined pension plan |
| Discount rates | +250 basis points | (26,114,399) |
| | +100 basis points | 16,743,553 |
| Future salary increases | +200 basis points | 34,155,612 |
| | +100 basis points | (11,799,726) |

The Association expects to contribute ₱13.32 million to the defined pension plan in 2014.

The average duration of the defined benefit obligation at the end of the reporting period is 29.3 years

Shown below is the maturity analysis of the undiscounted benefit payments:

| | December 31, 2013 |
|---|---|
| Less than 1 year | ₱– |
| More than 1 year to 5 years | – |
| More than 5 years to 10 years | – |
| More than 10 years to 15 years | 7,281,406 |
| More than 15 years to 20 years | 10,495,617 |
| More than 20 years | ₱4,806,356,607 |

25. **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, 2013 and 2012, the Association's MOS based on its calculations amounted to ₱782 million and ₱891 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:

| | **2013** | 2012 |
|---|---|---|
| Admitted assets | **₱5,222,492,464** | ₱4,509,697,128 |
| Admitted liabilities | **4,363,057,699** | 3,473,437,753 |
| Net worth | **₱859,434,765** | ₱1,036,259,375 |

As of December 31, 2013 and 2012, 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:

| | **2013** | 2012 |
|---|---|---|
| Cash and cash equivalents | **₱278,729,703** | ₱772,053,352 |
| Property and equipment | **4,078,363** | 63,829,792 |
| Other assets | **8,238,377** | 17,307,337 |
| | **₱291,046,443** | ₱853,190,481 |

If an insurance Association 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, 2013 and 2012, the Association has a total of ₱125.6 million and ₱126.90 million, respectively, representing guaranty fund which is deposited with the IC (Notes 11 and 27).

*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 Association, the minimum statutory net worth and minimum paid-up capital requirements vary. The minimum paid-up capital is pegged at 25% 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:

| | **2013** | 2012 |
|---|---|---|
| Minimum statutory net worth | **₱1,000,000,000** | ₱500,000,000 |

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, 2011. As of December 31, 2013 and 2012, 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:

| | **2013** | 2012 |
|---|---:|---:|
| Member's equity | ₱1,224,580,095 | ₱1,057,605,962 |
| RBC requirement | 351,439,323 | 351,439,323 |
| RBC Ratio | 348.94% | 300.94% |

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, provide d 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.

<u>Insurance Risk</u>
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. ounts 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.

Sensitivities
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.

**2013**

| | **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 liabilities | **₱660,835,831** | **(₱781,110,171)** |
| Increase (decrease) on revenue | **(660,835,831)** | **718,110,171** |

2012

| | 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 liabilities | ₱515,062,184 | (₱515,062,184) |
| Increase (decrease) on revenue | (515,062,184) | 515,062,184 |

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, 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, 2013 and 2012:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents | **₱642,567,435** | **₱642,567,435** | ₱829,704,731 | ₱829,704,731 |
| Short-term investments | **72,922,025** | **72,922,025** | 70,384,177 | 70,384,177 |
| Receivables | | | | |
| Accrued interest receivable | **51,223,205** | **51,223,205** | 46,531,776 | 46,531,776 |
| Accounts receivables | **137,026,494** | **137,026,494** | 22,870,006 | 22,870,006 |
| Loans receivable | **38,333,333** | **38,333,333** | 10,000,000 | 10,000,000 |
| Other receivables | **1,689,919** | **1,689,919** | 1,270,336 | 1,270,336 |
| Financial assets at FVPL | **21,040,000** | **21,040,000** | 20,260,000 | 20,260,000 |
| AFS financial assets | | | | |
| Quoted | **342,890,889** | **342,890,889** | 329,187,231 | 329,187,231 |
| Unquoted | **171,191,400** | **171,191,400** | 143,125,000 | 143,125,000 |
| HTM investments | **3,741,083,915** | **3,957,888,385** | 3,128,634,363 | 3,355,714,592 |
| | **₱5,219,968,615** | **₱5,436,773,085** | ₱4,601,967,620 | ₱4,829,047,849 |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued expenses | **₱70,602,938** | **₱70,602,938** | 163,591,076 | 163,591,076 |

Due to the short-term nature of transactions, the carrying amounts of financial instruments such as cash and cash equivalents, short-term investments, receivables, refundable deposits, financial assets at FVPL, quoted equity securities classified as AFS financial assets, 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 net asset 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.

As of December 31, 2013 and 2012, the fair value of the Available for Sale financial assets of the Association amounted to ₱342,890,889 and ₱329,187,231, respectively.

The Association classifies AFS financial assets under Level 1 of the fair value hierarchy, except for the unlisted equity securities that do not have quoted market prices in an active market which are measured at cost and hence, not included above. During the reporting period ended December 31, 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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.

| | 2013 | 2012 |
|---|---|---|
| **Financial Assets** | | |
| Loans and receivables | | |
| Cash and cash equivalents (excluding cash on hand amounting ₱3.41 million and ₱3.15 million in 2013 and 2012, respectively) | **₱639,161,440** | ₱826,556,549 |
| Short-term investments | **72,922,025** | 70,384,177 |
| Receivables | | |
| Accrued interest receivable | **51,223,205** | 46,531,776 |
| Accounts receivables | **137,026,494** | 22,870,006 |
| Loans receivable | **38,333,333** | 10,000,000 |
| Other receivables | **1,689,919** | 1,276,336 |
| Financial assets at FVPL | **21,040,000** | 20,260,000 |
| AFS financial assets | | |
| Quoted | **342,890,889** | 329,187,231 |
| Unquoted | **171,191,400** | 143,125,000 |
| HTM investments | **3,741,083,915** | 3,128,634,363 |
| | **₱5,216,562,620** | ₱4,598,825,438 |

The credit risk is concentrated on the following:

| | 2013 | 2012 |
|---|---|---|
| Related parties | **₱711,196,409** | ₱58,316,649 |
| Unrelated parties | **4,505,366,211** | 4,540,508,789 |
| | **₱5,216,562,620** | ₱4,598,825,438 |

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, 2013 and 2012.

**<u>2013</u>**

| | Neither Past-Due nor Impaired | | | |
|---|---|---|---|---|
| | Investment Grade | Non-investment Grade | Past Due and Impaired | Total |
| **Financial Assets** | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents | **₱639,161,440** | **₱ –** | **₱ –** | **₱639,161,440** |
| Short-term investments | **72,922,025** | – | – | **72,922,025** |
| Receivables | | | | |
| Accrued interest receivable | **51,223,205** | – | – | **51,223,205** |
| Accounts receivables | **136,328,316** | – | **698,178** | **137,026,494** |
| Loans receivable | **38,333,333** | – | – | **38,333,333** |
| Other receivables | – | **1,299,535** | **390,384** | **1,689,919** |
| Financial assets at FVPL | **21,040,000** | – | – | **21,040,000** |
| AFS financial assets | | | | |
| Quoted | **342,890,889** | – | – | **342,890,889** |
| Unquoted | **171,191,400** | – | – | **171,191,400** |
| HTM investments | **3,741,083,915** | – | – | **3,741,083,915** |
| | **₱5,214,174,523** | **₱1,299,534** | **₱1,088,562** | **₱5,216,562,620** |

2012

| | Neither Past-Due nor Impaired | | | |
|---|---|---|---|---|
| | Investment Grade | Non-investment Grade | Past Due and Impaired | Total |
| Financial Assets | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents | ₱ 826,556,549 | ₱– | ₱– | ₱826,556,549 |
| Short-term investments | 70,384,177 | – | – | 70,384,177 |
| Receivables | | | | |
| Accrued interest receivable | 46,531,776 | – | – | 46,531,776 |
| Accounts receivables | 22,870,006 | – | 1,661,042 | 24,531,048 |
| Loans receivable | 10,000,000 | – | – | 10,000,000 |
| Other receivables | – | 1,270,336 | 954,821 | 2,225,157 |
| Financial assets at FVPL | 20,260,000 | – | – | 20,260,000 |
| AFS financial assets | | | | |
| Quoted | 329,187,231 | – | – | 329,187,231 |
| Unquoted | 143,125,000 | – | – | 143,125,000 |
| HTM investments | 3,128,634,363 | – | – | 3,128,634,363 |
| | ₱4,597,549,102 | ₱1,270,336 | ₱2,615,863 | ₱4,601,435,301 |

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's 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:

**2013**

| | **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** | **₱639,161,440** | **₱–** | **₱–** | **₱–** | **₱–** | **₱639,161,440** |
| **Short-term investments** | **72,922,025** | **–** | **–** | **–** | **–** | **72,922,025** |
| **Receivables** | | | | | | |
| **Accrued interest receivable** | **51,223,205** | **–** | **–** | **–** | **–** | **51,223,205** |
| **Accounts receivables** | **137,026,494** | **–** | **–** | **–** | **–** | **137,026,494** |
| **Loans receivables** | **18,333,333** | **20,000,000** | **–** | **–** | **–** | **38,333,333** |
| **Other receivables** | **1,689,919** | **–** | **–** | **–** | **–** | **1,689,919** |
| **Financial assets at FVPL** | **21,040,000** | **–** | **–** | **–** | **–** | **21,040,000** |
| **AFS financial assets** | **–** | **–** | **–** | **–** | **514,082,289** | **514,082,289** |
| **HTM investments** | **255,926,308** | **1,023,881,956** | **1,545,232,159** | **916,043,492** | **–** | **3,741,083,915** |
| | **₱1,197,322,724** | **₱1,043,881,956** | **₱1,545,232,159** | **₱916,043,492** | **₱514,082,289** | **₱5,216,562,620** |
| **Financial liabilities** | | | | | | |
| **Other financial liabilities** | | | | | | |
| **Collection fee payable** | **₱50,440,961** | **₱–** | **₱–** | **₱–** | **₱–** | **₱50,440,961** |
| **Claims payable** | **15,326,342** | **–** | **–** | **–** | **–** | **15,326,342** |
| **Unearned contribution income – AKAP** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Accounts payable - CAMIA** | **10,537,230** | **–** | **–** | **–** | **–** | **10,537,230** |
| **Accrued expenses** | **7,242,228** | **–** | **–** | **–** | **–** | **7,242,228** |
| **Held in trust - CAMIA** | **801,740** | **–** | **–** | **–** | **–** | **801,740** |
| | **₱84,348,501** | **₱–** | **₱–** | **₱–** | **₱–** | **₱84,348,501** |

2012

| | 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 | ₱826,556,549 | ₱– | ₱– | ₱– | ₱– | ₱826,556,549 |
| Short-term investments | 68,769,102 | 1,615,075 | – | – | – | 70,384,177 |
| Receivables | | | | | | |
| Accrued interest receivable | 46,531,776 | – | – | – | – | 46,531,776 |
| Accounts receivables | 24,531,048 | – | – | – | – | 24,531,048 |
| Loans receivables | 10,000,000 | – | – | – | – | 10,000,000 |
| Other receivables | 2,225,156 | – | – | – | – | 2,225,156 |
| Financial assets at FVPL | 20,260,000 | – | – | – | – | 20,260,000 |
| AFS financial assets | – | – | – | – | 472,312,231 | 472,312,231 |
| HTM investments | 191,402,544 | 1,077,649,251 | 329,268,248 | 1,530,314,320 | – | 3,128,634,363 |
| | ₱1,190,276,176 | ₱1,079,264,326 | ₱329,268,248 | ₱1,530,314,320 | ₱472,312,231 | ₱4,601,435,301 |
| Financial liabilities | | | | | | |
| Other financial liabilities | | | | | | |
| Collection fee payable | ₱151,018,956 | ₱– | ₱– | ₱– | ₱– | ₱151,018,956 |
| Claims payable | 10,790,284 | – | – | – | – | 10,790,284 |
| Unearned contribution income – AKAP | 380,250 | – | – | – | – | 380,250 |
| Accounts payable - CAMIA | 4,298,227 | – | – | – | – | 4,298,227 |
| Accrued expenses | 5,300,724 | – | – | – | – | 5,300,724 |
| Held in trust - CAMIA | 2,604,576 | – | – | – | – | 2,604,576 |
| | ₱174,393,017 | ₱– | ₱– | ₱– | ₱– | ₱174,393,017 |

*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:

a. 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.

b. 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.

c. 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.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **U.S. Dollar[1]** | **Peso Equivalent** | U.S. Dollar[1] | Peso Equivalent |
| Cash in bank | **$11,517** | **₱511,530** | $7,949 | ₱326,319 |
| Short-term investments | **5,426** | **240,980** | 5,376 | 220,686 |
| Total | **$16,943** | **₱752,510** | $13,325 | ₱547,005 |

[1] The exchange rate used was ₱44.41 to US$ 1.00 in 2013 and ₱41.05 to US$ 1.00 in 2012.

*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** |
|---|---|---|---|
| **2013** | **USD** | **+2.05** | **₱15,426** |
| | | **-2.05** | **(₱15,426)** |
| 2012 | USD | +1.72 | ₱9,408 |
| | | -1.72 | (₱9,408) |

*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, 2013 and 2012 that are exposed to fair value interest rate risk presented by maturity profile.

**2013**

| | Range of interest rate | Up to a year | Over one (1) year |
|---|---|---|---|
| Cash and cash equivalents-regular deposit | **1.25% to 2.00%** | **₱197,875,149** | **₱–** |
| Cash and cash equivalents-time deposits | **1.00% to 4.00%** | **444,692,286** | – |
| Short-term investments | **0.75% to 1.00%** | **72,922,025** | – |
| HTM investments | **1.625% to 9.00%** | **255,926,308** | **3,485,157,607** |
| Total financial assets | | **₱971,415,768** | **₱3,485,157,607** |

2012

| | Range of interest rate | Up to a year | Over one (1) year |
|---|---|---|---|
| Cash and cash equivalents-regular deposit | 1.00% to 3.00% | ₱44,007,885 | ₱– |
| Cash and cash equivalents-time deposits | 3.13% to 3.90% | 785,696,846 | 1,615,075 |
| Short-term investments | 1.00% to 6.00% | 70,384,177 | – |
| HTM investments | 4.63% to 12.00% | 191,402,544 | 2,937,231,819 |
| Total financial assets | | ₱1,091,491,452 | ₱2,938,846,894 |

*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 |
|---|---|---|---|
| **2013** | **₱363,930,889** | **+9.00%** | **23,573,787** |
| | | **-9.00%** | **(23,573,787)** |
| 2012 | ₱254,189,859 | +10.12% | 25,731,429 |
| | | -10.12% | (25,731,429) |

## 26. 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 Association's financial statements. As of December 31, 2013 and 2012, 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.

## 27. Appropriated Fund Balance

The Association's BOT approved the appropriation of the following:

| | **Guaranty fund (Note 11)** | **CDRAP** | **AKAP CARD** | **MAHP** | **TOTAL** |
|---|---|---|---|---|---|
| As at January 1, 2012 | ₱127,487,319 | ₱15,000,000 | ₱18,508,500 | ₱10,000,000 | ₱170,995,819 |
| Appropriation | − | 11,000,000 | − | 12,500,000 | 23,500,000 |
| Reversal of appropriation | (586,640) | − | − | − | (586,640) |
| As at December 31, 2012 | **126,900,679** | **26,000,000** | **18,508,500** | **22,500,000** | **193,909,179** |
| Appropriation | **−** | **91,700,000** | **−** | **−** | **91,700,000** |
| Utilization of appropriation | **−** | **(27,251,515)** | **(18,508,500)** | **(22,500,000)** | **(68,260,015)** |
| As at December 31, 2013 | **₱126,900,679** | **₱90,448,485** | **₱−** | **₱−** | **₱217,349,164** |

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 ₱125.00 million, whichever is higher. In 2012, the Association reversed ₱0.59 million of the appropriated guaranty fund.

The Association appropriated ₱91.7 million in 2013 and ₱11.00 million in 2012 for CARD MRI Disaster Relief Assistance Program (CDRAP) aimed at providing relief assistance to its members and dependents during calamities and other disasters in the form of cash or relief goods.

The Association appropriated nil and ₱12.00 million in 2013 and 2012 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.

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.

28. **Supplementary Tax Information Required Under Revenue Regulations 15-2010**

The Association reported and/or paid the following types of taxes in 2013:

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 'Taxes and Licenses' under the 'General and Administrative Expenses' section in the Association's statements of income.

   Details consist of the following:

| | |
|---|---|
| License and permit fees | ₱1,917,443 |
| Documentary stamp taxes | 1,571,313 |
| | ₱ 3,488,756 |

e. Withholding Taxes

   Details consist of the following:

| | |
|---|---|
| Withholding taxes on compensation and benefits | ₱2,154,244 |
| Expanded withholding taxes | 241,972 |
| | ₱2,396,216 |

f. Tax Assessments and Cases

   The Association has not been involved in any tax case 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.**
**(A Nonstock, Not-for-Profit Association)**

**SUPPLEMENTARY SCHEDULE REQUIRED UNDER SECURITIES REGULATOR CODE RULE 68, AS AMENDED (2011)**
**DECEMBER 31, 2013**

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2013** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | ✓ | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Reviseda)** | Business Combinations | | | ✓ |
| **PFRS 4** | Insurance Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| **PFRS 7** | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | *Not early adopted* | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | *Not early adopted* | | |
| **PFRS 8** | Operating Segments | | | ✓ |
| **PFRS 9** | Financial Instruments | *Not early adopted* | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | *Not early adopted* | | |
| **PFRS 10** | Consolidated Financial Statements | *Not early adopted* | | |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | *Not early adopted* | | |
| **PFRS 13** | Fair Value Measurement | *Not early adopted* | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | *Not early adopted* | | |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | | | ✓ |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | *Not early adopted* | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | | | ✓ |
| **PAS 27 (Amended)** | Separate Financial Statements | *Not early adopted* | | |
| **PAS 28** | Investments in Associates | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | *Not early adopted* | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Financial Instruments and Obligations Arising on Liquidation | | | |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | *Not early adopted* | | |
| **PAS 33** | Earnings per Share | | | ✓ |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓ |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| **PAS 40** | Investment Property | | | ✓ |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | | | ✓ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| **IFRIC 9** | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

**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, 2013 and 2012 and have issued our report thereon dated March 31, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Association's schedules of all the effective standards and interpretations under PFRS as of December 31, 2013 and reconciliation of retained earnings available for dividend declaration 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.

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-1 (Group A),
April 15, 2013, valid until April 14, 2016
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4225205, January 2, 2014, Makati City

March 31, 2014

*SGVFS004629*