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

(A Nonstock, Not-for-Profit Organization)

Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

142051

SEC Registration Number

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC. (A Nonstock, Not-for-Profit OrganizAtion)

(Company's Full Name)

20 M.L. Quezon Street, City Subdivision, San Pablo City, LagUna

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

Jocelyn D. Dequito	(049) 562-4309
(Contact Person)	(Company Telephone Number)

12 31	AAFS	03 17
Month *Day* (Fiscal Year)	(Form Type)	*Month* *Day* (Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

SEC	Not Applicable
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

Not Applicable	₱1.5 billion	None
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

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Document ID

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CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Not-for-Profit Organization)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Cash and cash equivalents (Note 6)	**₱573,571,558**	₱356,965,955
Short-term investments (Notes 7 and 26)	**–**	2,671,097
Receivables:		
Receivables from members (Note 8)	**3,277,070,303**	2,848,102,164
Due from affiliates (Notes 9 and 26)	**39,227,394**	30,757,547
Other receivables (Note 10)	**130,963,789**	112,281,073
Available-for-sale investments (Note 11)	**9,097,900**	22,509,621
Investment in associates (Notes 12 and 26)	**257,912,828**	184,323,815
Property and equipment (Note 13)	**126,423,246**	136,382,168
Investment properties (Note 14)	**35,481,118**	39,186,843
Other assets (Notes 15 and 26)	**48,520,892**	98,044,549
	₱4,498,269,028	₱3,831,224,832
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued expenses (Note 17)	**₱241,932,453**	₱170,311,038
Borrowings (Note 18)	**1,541,865,839**	1,709,606,631
Due to members (Note 19)	**1,501,407,757**	1,014,610,960
Total Liabilities	**3,285,206,049**	2,894,528,629
Equity		
Fund balance:		
Appropriated (Note 27)	**59,900,000**	54,600,000
Unappropriated	**1,153,045,276**	882,287,977
Change in equity in net unrealized gain on available-for-sale investments of associates (Note 12)	**309,477**	–
Net unrealized losses on available-for-sale investments (Note 11)	**(191,774)**	(191,774)
Total Equity	**1,213,062,979**	936,696,203
	₱4,498,269,028	₱3,831,224,832

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Not-for-Profit Organization)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2011	2010
REVENUE AND OTHER INCOME		
Administrative fee (Note 8)	**₱1,826,148,550**	₱1,282,175,933
Grants	**12,192,598**	9,660,899
Others (Note 23)	**83,876,372**	67,411,458
	1,922,217,520	1,359,248,290
COSTS AND EXPENSES		
Project related expenses (Note 22)	**1,546,227,061**	1,088,067,378
Grants and donations (Note 26)	**54,690,730**	29,350,000
Research	**8,012,537**	8,729,699
Health program	**–**	305,793
Others (Note 23)	**37,229,893**	47,451,185
	1,646,160,221	1,173,904,055
EXCESS OF REVENUE OVER EXPENSES	**276,057,299**	185,344,235
OTHER COMPREHENSIVE INCOME		
Change in equity in net unrealized gain on available-for-sale investments of associates	**309,477**	–
Change in unrealized gain on available-for-sale investments during the year (Note 11)	**–**	15,052,290
Realized loss on available-for-sale investments during the year	**–**	1,427,518
	309,477	16,479,808
TOTAL COMPREHENSIVE INCOME	**₱276,366,776**	₱201,824,043

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND
RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Not-for-Profit Organization)

STATEMENTS OF CHANGES IN EQUITY

	Fund Balance		Net Unrealized Losses on Available-for-Sale Investments	Change in Equity in Net Unrealized Gain on Available-for-Sale Investments of	
	Appropriated (Note 27)	**Unappropriated**	(Note 11)	**Associates** (Note 12)	**Total**
Balance at January 1, 2011	**₱54,600,000**	**₱882,287,977**	**(₱191,774)**	**₱–**	**₱936,696,203**
Appropriation during the year	**5,300,000**	**(5,300,000)**	**–**	**–**	**–**
Total comprehensive income	**–**	**276,057,299**	**–**	**309,477**	**276,366,776**
Balance at December 31, 2011	**₱59,900,000**	**₱1,153,045,276**	**(₱191,774)**	**₱309,477**	**₱1,213,062,979**
Balance at January 1, 2010	₱50,000,000	₱701,543,742	(₱16,671,582)	₱–	₱734,872,160
Appropriation during the year	4,600,000	(4,600,000)	–	–	–
Total comprehensive income	–	185,344,235	16,479,808	–	201,824,043
Balance at December 31, 2010	₱54,600,000	₱882,287,977	(₱191,774)	₱–	₱936,696,203

See accompanying Notes to Financial Statements.

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Not-for-Profit Organization)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	**₱276,057,299**	₱185,344,235
Adjustments for:		
Interest expense (Note 22)	**154,090,878**	102,134,541
Provision for credit losses (Notes 16 and 22)	**87,543,695**	31,067,776
Pension expense (Note 21)	**77,386,900**	14,063,200
Equity in net earnings of associates (Notes 12 and 23)	**(57,283,088)**	(38,462,433)
Depreciation and amortization (Notes 13 and 14)	**41,671,908**	44,550,842
Interest income (Note 23)	**(16,193,945)**	(9,847,814)
Amortization of debt issue costs	**2,096,356**	–
Loss (gain) on disposal of property and equipment (Note 13)	**(547,756)**	1,140,603
Provision for impairment losses (Notes 14, 15 and 23)	**259,766**	6,537,726
Dividend income (Note 23)	**(201,392)**	(378,303)
Loss on sale of available-for-sale investment	–	1,427,518
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Short-term investments	**2,671,097**	34,258,655
Receivables	**(542,286,077)**	(813,626,900)
Other assets	**(3,010,289)**	(8,558,417)
Increase (decrease) in amounts of:		
Accounts payable and accrued expenses	**75,424,119**	(535,515)
Due to members	**486,796,797**	132,582,653
Net cash flows generated from (used in) operations	**584,476,268**	(318,301,633)
Interest paid	**(157,893,582)**	(106,307,756)
Contributions to the retirement plan (Note 21)	**(17,112,720)**	(15,519,000)
Interest received	**14,815,625**	7,082,648
Net cash flows provided by (used in) operating activities	**424,285,591**	(433,045,741)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal or maturity of:		
Available-for-sale investment	–	51,152,624
Property and equipment (Note 13)	**4,221,622**	1,348,238
Acquisitions of:		
Available-for-sale investments	–	(268,000)
Investment in associates (Note 12)	**(8,158,800)**	(1,500,000)
Property and equipment (Note 13)	**(31,681,127)**	(50,530,307)
Investment properties (Note 14)	–	(520,000)
Prepaid subscription of equity shares (Note 15)	**(8,000,000)**	–
Dividends received (Notes 11 and 12)	**5,775,465**	11,378,303
Net cash flows provided by (used in) investing activities	**(37,842,840)**	11,060,858

(Forward)

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of borrowings	**(₱1,213,347,782)**	(₱525,802,936)
Proceeds from borrowings	**1,055,000,000**	1,063,367,300
Payment of debt issue costs	**(11,489,366)**	–
Net cash flows from (used in) financing activities	**(169,837,148)**	537,564,364
NET INCREASE IN CASH AND CASH EQUIVALENTS	**216,605,603**	115,579,481
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**356,965,955**	241,386,474
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱573,571,558**	₱356,965,955

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Organizational Information

Center for Agriculture and Rural Development (CARD), Inc. (the Organization), a nonstock, not-for-profit organization, was incorporated in the Philippines on October 14, 1986. The Organization was registered with the Philippine Securities and Exchange Commission (SEC) on March 6, 1987 primarily to undertake, directly finance and assist research and development work and/or economic evaluation for the development and improvement of the quality of life of people in underdeveloped and depressed areas.

The Organization is a member of CARD - Mutually Reinforcing Institutions (MRI).

Being not organized for profit and since no part of its net income inures to the benefit of any private individual or member, the Organization falls under Section 30 (e) of the Tax Reform Act of 1997 and as such, income from activities in pursuit of the purpose for which the Organization was organized is exempt from income tax.

The registered office of the Organization is located at 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna. As at December 31, 2011 and 2010, the Organization had 710 and 652 branches, respectively.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments which have been measured at fair value. The Organization's financial statements are presented in Philippine peso, the Organization's functional currency. All values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance
The accompanying financial statements of the Organization have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Organization presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 20.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standards (PAS), Philippine Financial Reporting Standards (PFRSs) and International Financial Reporting Interpretations Committee (IFRIC) which became effective as at January 1, 2011.

PAS 24, Related Party Transactions (Amendment)
PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Organization.

PAS 32, Financial Instruments: Presentation (Amendment)
The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Organization because the Organization does not have these types of instruments.

Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Organization is not subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Organization.

Improvements to PFRSs (issued 2010)
The omnibus amendments to PFRSs were issued primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Organization.

- PFRS 7, Financial Instruments - Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

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

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

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

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Summary of Significant Accounting Policies

Foreign Currency Transactions
For financial reporting purposes, foreign currency-denominated monetary assets and liabilities are translated into their equivalents in Philippine peso based on the Philippine Dealing System (PDS) closing rate at the end of the year and foreign currency-denominated income and expenses, at the PDS weighted average rate for the year.

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against current operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and in banks with original maturities of three months or less from dates of placements and that are subject to insignificant risk of change in value.

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

Initial recognition and classification of financial instruments
All financial assets and financial liabilities are initially measured at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement includes transaction costs. The Organization classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available for sale (AFS) investments and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. As at December 31, 2011 and 2010, the Organization had no financial assets and liabilities at FVPL and HTM investments.

Determination of fair value
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value or 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 Organization recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income under 'Other revenue' unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using 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 Organization determines the appropriate method of recognizing the 'Day 1' difference amount.

Receivables
This accounting policy relates to the statement of financial position captions 'Short-term investments' and 'Receivables'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and for which the Organization has no intention of trading.

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

AFS investments
AFS investments are those non-derivative financial assets which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or receivables. These are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt investments is reported in the statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded from reported revenue and are reported in other comprehensive income.

AFS investments include unquoted equity investments where the Organization's ownership interest is less than 20.0% or where control is likely to be temporary are initially recognized at cost, being the fair value of the investment at the time of acquisition or purchase and including acquisition charges associated with the investment. Such investments are carried at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as 'Other revenue' in the statement of comprehensive income. Dividends earned on holding AFS equity investments, if any, are recognized in the statement of comprehensive income as 'Other revenue' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment losses' under 'Other expenses' in the statement of comprehensive income.

Other financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Accounts payable and accrued expenses', 'Borrowings' and 'Due to members' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Organization 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, accounts payable and accrued expenses, borrowings and due to members and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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 unfavorable to the Organization; or
- 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.

If the Organization 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.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Organization 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 Organization has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

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

Financial liabilities

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

Offsetting Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Organization intends to either settle on a net basis, or to realize the asset and the liability simultaneously. This is not generally the case with master-netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of Financial Assets

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

Receivables
For receivables carried at amortized cost, the Organization first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Organization determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit losses' under 'Project related expenses' in the statement of comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Organization to reduce any differences between loss estimates and actual loss experience.

When a receivable is uncollectible, it is written off against the related allowance for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the loan loss provision and are recognized in the statement of comprehensive income.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision. The amount of the reversal is recognized in the statement of comprehensive income.

AFS investments
For AFS investments, the Organization assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss is removed from equity and recognized in the profit or loss. Impairment losses on AFS investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' under 'Other revenue' in the statement of comprehensive income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in statement of comprehensive income, the impairment loss is reversed through statement of comprehensive income.

<u>Investment in Associates</u>
Associates are entities over which the Organization has significant influence but not control, generally accompanying a shareholding of between 20.0% and 50.0% of the voting rights. Investment in associates is accounted for under the equity method of accounting.

Under the equity method, investment in associates is carried in the statement of financial position at cost plus post-acquisition changes in the Organization's share in the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is individually tested for impairment. The Organization's share in an associate's post-acquisition earnings is recognized in statement of comprehensive income, and its share of post-acquisition movements in the associate's other comprehensive income is recognized directly in other comprehensive income. Distributions received from an associate reduce the carrying amount of the investment. When the Organization's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Organization does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Organization and an associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the Organization. The associates' accounting policies conform to those used by the Organization for like transactions and events in similar circumstances.

<u>Property and Equipment</u>
Property and equipment which includes land, building and improvements, furniture and equipment, transportation equipment and construction in progress is carried at cost less accumulated depreciation and amortization and any impairment loss, except for land and construction in progress, which are carried at cost less impairment.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs to bring the asset to its working condition and location for its intended use. Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year 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. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in the statement of comprehensive income.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

The estimated useful lives of the depreciable assets are as follows:

Building and improvements	5 to 25 years
Furniture and equipment	3 years
Transportation equipment	3 years

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

Construction in progress represents building under construction and is stated at cost less impairment. Construction in progress is not depreciated until such time the relevant assets are completed and ready for intended use.

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

<u>Investment Properties</u>
Investment properties are carried at cost less accumulated depreciation and any impairment loss, except for land which is carried at cost less impairment. The initial cost of investment properties includes transaction costs representing nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Organization.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against operations in the year in which the costs are incurred.

Depreciation on building and improvements is calculated on a straight-line basis over the estimated useful life of 10 to 25 years from the time of acquisition of the investment properties.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For transfers from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Organization as an owner-occupied property becomes an investment property, the Organization accounts for such property in accordance with the policy stated under 'Property and Equipment' up to the date of change in use.

Impairment of Nonfinancial Assets

Property and equipment and investment properties

At each reporting date, the Organization assesses whether there is any indication that its nonfinancial assets, which include property and equipment and investment properties may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Organization makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset'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, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. 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 the statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Investments in associates

After application of the equity method, the Organization determines whether it is necessary to recognize an additional impairment loss of the Organization's investment in associates. The Organization determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Organization calculates the amount of impairment as being the difference between the recoverable value of the associate and the acquisition cost and recognizes the amount in the statement of comprehensive income.

Equity
Equity includes fund balance which consists of the amounts contributed by the members of the Organization and all current and prior period results of operations.

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

Administrative fees
Administrative fees are recognized as they become due and billable.

Grants
Grants received for a specific purpose are initially recognized as a liability to the donors; otherwise, these grants are recorded in the books as income upon receipt. Unutilized grants are shown as funds held-in-trust under 'Accounts payable and accrued expenses' account in the statement of financial position.

Interest income
Interest income on deposits in banks, short-term investments, due from affiliates, other receivables and restricted funds is recognized as interest accrues using EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the interest-bearing financial instruments to the net carrying amount of the financial assets.

Rent income
Rent income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Dividend income
Dividends are recognized as revenue when the Organization's right to receive the payment is established.

Costs and Expenses
Costs and expenses encompass losses as well as those expenses that arise in the course of the undertakings of the Organization. Costs and expenses are recognized when incurred.

Retirement Benefits
The Organization is covered by a noncontributory defined benefit retirement plan.

The Organization's retirement cost is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The asset recognized in the statement of financial position, in respect of defined benefit pension plans, is the fair value of the plan assets less the present value of defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs and unrecognized plan assets determined under the asset ceiling test. The asset ceiling test requires a defined benefit asset to be measured at the lower of the amount of the transition asset and the total of any cumulative unrecognized net actuarial losses and past service cost and 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 defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged against or credited to revenue when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10.0% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

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

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

<u>Operating Leases</u>
Organization as lessee
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Project related expense' in the statement of comprehensive income on a straight-line basis over the lease term.

Organization as lessor
Leases where the Organization does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized. All other borrowing costs are recognized as expense in the year in which they are incurred.

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 assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

Future Changes in Accounting Policies
The Organization will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Organization does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2012

Amendment to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Organization's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and will have no impact on the Organization's financial position or performance.

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

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

Effective in 2013

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

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Organization is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Amendment to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
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 for annual periods beginning on or after January 1, 2013.

Effective in 2014

Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Organization, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Organization is currently assessing impact of the amendments to PAS 32.

Effective in 2015

PFRS 9, *Financial Instruments*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The Organization decided not to early adopt PFRS 9 for its 2011 financial reporting. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Organization's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

3. Significant Accounting Judgments and Estimates

The preparation of the Organization's financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities.

Future events may occur which will cause the judgments 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.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) *Operating leases*

Organization as lessor

The Organization leases out its investment properties under operating lease mainly to its affiliates. All the significant risks and rewards of ownership from these properties are retained by the Organization.

Organization as lessee

The Organization has entered into commercial property leases with outside parties wherein the latter retains all the significant risks and rewards of ownership of those properties leased out under operating leases. These operating leases are subject to one-year term and are renewable annually upon agreement of both contracting parties. In determining the classification of the lease, the Organization considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and bearer of executor costs, among others.

(b) *Fair value of financial instruments*

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

In accordance with the amendments to PFRS 7, disclosures about the level in the fair value hierarchy are required in which the fair value measurements are categorized for assets and liabilities measured in the statement of financial position. The Organization used judgment in assessing the significance of a particular input to the fair value measurements in its entirety, considering factors specific to the asset or liability.

(c) *Financial assets not quoted in an active market*
The Organization classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether the asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(d) *Determination of functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the Organization to use its judgment to determine its functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Organization. In making this judgment, the Organization considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

The Organization has determined that its functional currency is Philippine peso, which is the same as its presentation currency.

(e) *Contingencies*
The amount of probable costs for the resolution of any possible claims against the Organization is to be determined in consultation with outside legal counsel which will handle the Organization's defense in any legal contingencies and will be based upon an analysis of potential results.

(f) *Going concern*
The Organization's management has made an assessment of the Organization's ability to continue as a going concern and is satisfied that the Organization has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Organization's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

<u>Estimates</u>

(a) *Credit losses on receivables*
The Organization reviews its receivables to assess impairment annually. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Organization 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 receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or national or local economic conditions that correlate with defaults on the receivables.

As at December 31, 2011 and 2010, allowance for credit losses on receivables of the Organization amounted to ₱135.6 million and ₱71.0 million, respectively (see Note 16).

As at December 31, 2011 and 2010, the carrying value of receivables from members amounted to ₱3.3 billion and ₱2.8 billion, respectively (see Note 8). As at December 31, 2011 and 2010, the carrying value of due from affiliates amounted to ₱39.2 million and 30.8 million, respectively (see Note 9). As at December 31, 2011 and 2010, the carrying value of other receivables amounted to ₱131.0 million and ₱112.3 million, respectively (see Note 10).

(b) *Impairment of AFS equity investments*
The Organization determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Organization evaluates among other factors, the normal volatility in share 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.

No impairment loss was recognized on AFS equity investments in 2011 and 2010.

As at December 31, 2011 and 2010, the carrying value of AFS equity investments amounted to ₱9.1 million and ₱22.5 million, respectively.

(c) *Valuation of unquoted equity investments*
The Organization's equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. The Organization has no intention of disposing its unquoted equity investments held.

As at December 31, 2011 and 2010, unquoted equity investments amounted to ₱9.1 million and ₱22.5 million, respectively.

(d) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The expected rate of return on plan assets was based on the market prices prevailing on that date applicable to the period over which obligation is to be settled. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at the reporting date.

As at December 31, 2011 and 2010, the present value of the defined benefit obligation amounted to ₱408.3 million and ₱156.2 million, respectively (see Note 21).

(e) *Impairment of property and equipment and investment properties*
The Organization 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 Organization 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 Organization recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use for property and equipment and fair value less costs to sell for investment properties. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying value of property and equipment and investment properties as at December 31, 2011 amounted to ₱126.4 million and ₱35.5 million, respectively. As at December 31, 2010, the carrying value of property and equipment and investment properties amounted to ₱136.4 million and ₱39.2 million, respectively. As at December 31, 2011 and 2010, no allowance for impairment losses was provided on the Organization's property and equipment. As at December 31, 2011 and 2010, allowance for impairment losses on investment properties amounted to ₱4.7 million (see Note 14).

(e) Estimated useful lives of property and equipment and investment properties
The Organization estimates the useful lives of its property and equipment and investment properties. This estimate is reviewed periodically to ensure that the periods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment and investment properties. The estimated useful lives of property and equipment and investment properties are discussed in Note 2.

4. Categories and Fair Values of Financial Assets and Liabilities

Shown below are the Organization's assets and liabilities as they appear in the statement of financial position which are divided into financial and nonfinancial items, with the financial items being mapped to the categories of financial instruments under PAS 39 (in thousands).

	2011				
	Financial Instruments				
	AFS Investments	Receivables	Other Financial Liabilities	Other Nonfinancial Items	Total
ASSETS					
Cash and cash equivalents	₱–	₱573,572	₱–	₱–	₱573,572
Receivables	–	3,447,261	–	–	3,447,261
AFS investments	9,098	–	–	–	9,098
Investment in associates	–	–	–	257,913	257,913
Property and equipment	–	–	–	126,423	126,423
Investment properties	–	–	–	35,481	35,481
Other assets	–	25,584	–	22,937	48,521
Total Assets	₱9,098	₱4,046,418	₱–	₱442,754	₱4,498,269
LIABILITIES					
Accounts payable and accrued expenses	₱–	₱–	₱198,858	₱43,074	₱241,932
Borrowings	–	–	1,541,866	–	1,541,866
Due to members	–	–	1,501,408	–	1,501,408
Total Liabilities	₱–	₱–	₱3,242,132	₱43,074	₱3,285,206

	2010				
	Financial Instruments				
	AFS Investments	Receivables	Other Financial Liabilities	Other Nonfinancial Items	Total
ASSETS					
Cash and cash equivalents	₱–	₱356,966	₱–	₱–	₱356,966
Short-term investments	–	2,671	–	–	2,671
Receivables	–	2,991,140	–	–	2,991,140
AFS investments	22,510	–	–	–	22,510
Investment in associates	–	–	–	184,324	184,324
Property and equipment	–	–	–	136,382	136,382
Investment properties	–	–	–	39,187	39,187
Other assets	–	23,630	–	74,415	98,045
Total Assets	₱22,510	₱3,374,407	₱–	₱434,308	₱3,831,225
LIABILITIES					
Accounts payable and accrued expenses	₱–	₱–	₱136,176	₱34,135	₱170,311
Borrowings	–	–	1,709,607	–	1,709,607
Due to members	–	–	1,014,611	–	1,014,611
Total Liabilities	₱–	₱–	₱2,860,394	₱34,135	₱2,894,529

The methods and assumptions used by the Organization in estimating the fair value of the financial instruments are:

The fair values approximate the carrying values for financial assets and financial liabilities that are liquid or have short-term maturities. These include cash and cash equivalents, short-term investments, current portion of receivables, other assets, current portion of borrowings and other liabilities.

Receivables - Fair values of noncurrent portion of receivables are estimated using the discounted cash flow methodology, based on prevailing market lending rates for similar type of receivables, taking into account the remaining maturities and applicable spreads of the counterparties.

Debt investments - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Unquoted equity investments - Fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. There is no market for these investments and the Organization does not intend to dispose these investments. These investments are carried at cost less any impairment.

Borrowings - Noncurrent portion of borrowings are estimated using the discounted cash flow methodology using the Organization's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The following table summarizes the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2011 and 2010 (in thousands):

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	**₱573,572**	**₱573,572**	₱356,966	₱356,966
Short-term investments	–	–	2,671	2,671
Receivables	**3,447,261**	**3,448,197**	2,991,140	3,307,440
AFS investments:				
Unquoted equity investments	**9,098**	**9,098**	22,510	22,510
Other assets	**25,584**	**25,584**	23,630	23,630

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Accounts payable and accrued expenses	**₱198,858**	**₱198,858**	₱136,176	₱136,176
Borrowings	**1,541,866**	**1,574,684**	1,709,607	1,365,021
Due to members	**1,501,408**	**1,501,408**	1,014,611	1,014,611

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

Level 1: those financial instruments which are quoted in active markets for identical assets or liabilities;
Level 2: those financial instruments involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3: those financial instruments with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2011 and 2010, the Organization has no financial instruments measured at fair value. There have been no changes in determining the fair value of financial instruments in 2011 and 2010. There were no transfers of financial instruments between Levels 1, 2 and 3 in 2011 and 2010.

5. Financial Risk Management Objectives and Policies

The Organization has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

In line with the Organization's mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", risk management framework of the Organization involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks.

The Board of Trustees (BOT) through the Audit Committee (AC) of the MRI Group is responsible for monitoring the Organization's implementation of risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Organization. The AC regularly reports to BOT the results of reviews of actual implementation of risk management policies. Risk Management of the MRI Group is strengthened in conjunction with AC and Internal Audit (IA) functions. IA undertakes both regular audit examination and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Credit Risk
Credit risk is the risk of financial loss to the Organization if the counterparty to a financial instrument fails to meet its contractual obligations. The Organization manages its credit risk by providing field personnel with thorough trainings for effective and efficient service delivery to mitigate such risk.

A codified signing authority is in place for every level of receivables processing and approval. Receivables are guaranteed by co-borrower/guarantor from family member. All past due/impaired accounts are reported on a daily, weekly and monthly basis. Consistent monitoring for these accounts is established by competent and diligent personnel to maximize recovery. Writing off bad debt accounts are being approved by the BOT through its Executive Director.

Intensive management monitoring of the program and regular internal audit examination are being conducted. Identified existing and potential irregularities are being discussed and processed during the monthly AC meeting. Consequently, a summary of AC reports are being presented to the regular quarterly meeting of the BOT.

Maximum exposure to credit
The maximum exposure to credit risk by class of financial asset is shown below (in thousands):

		2011	
	Maximum Exposure to Credit risk	**Fair Value of Collateral and Credit Enhancements**	**Net Exposure to Credit risk**
Cash in banks	**₱573,483**	**₱–**	**₱573,483**
Receivables:			
Receivables from members	**3,277,070**	**1,501,408**	**1,775,662**
Due from affiliates	**39,227**	**–**	**39,227**
Other receivables	**130,964**	**–**	**130,964**
AFS investments:	**9,098**	**–**	**9,098**
Other assets:			
Restricted funds	**8,109**	**–**	**8,109**
Others	**17,475**	**–**	**17,475**
Total credit risk exposure	**₱4,055,426**	**₱1,501,408**	**₱2,554,018**

		2010	
	Maximum Exposure to Credit risk	Fair value of Collateral and Credit Enhancements	Net Exposure to Credit risk
Cash in banks	₱356,809	₱–	₱356,809
Short-term investments	2,671	–	2,671
Receivables:			
Receivables from members	2,848,102	1,014,611	1,833,491
Due from affiliates	30,758	–	30,758
Other receivables	112,281	–	112,281
AFS investments:	22,510	–	22,510
Other assets:			
Restricted funds	8,656	–	8,656
Others	14,975	–	14,975
Total credit risk exposure	₱3,396,762	₱1,014,611	₱2,382,151

The Organization assessed that it has no credit risk exposures relating to off-balance sheet items. Credit enhancement for receivable from members pertains to contribution of members for capital build-up purposes (see Note 19). The financial effect of contribution of members is ₱1.5 billion and ₱1.0 billion as at December 31, 2011 and 2010, respectively (see Note 8).

Concentration of credit risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Organization's financial instruments are concentrated to rural borrowers.

Credit quality per class of financial assets
Cash in banks, short-term investments and other noncurrent assets, are with reputable financial institutions and related party banks and are deemed to be neither past due nor impaired.

Receivables and AFS investments rated as high grade refer to those accounts that are not impaired.

The tables below show the credit quality per class of AFS investments and receivables (gross of allowance for credit losses) as at December 31, 2011 and 2010 (in thousands):

	2011		
	Neither Past Due nor Impaired	**Impaired**	**Total**
Receivables:			
Receivables from members	**₱3,315,907**	**₱91,794**	**₱3,407,701**
Due from affiliates	**39,227**	–	**39,227**
Other receivables	**130,964**	**4,938**	**135,902**
AFS investments - unquoted equity investments	**9,098**	–	**9,098**
	₱3,495,196	**₱96,732**	**₱3,591,928**

	2010		
	Neither Past Due nor Impaired	Impaired	Total
Receivables:			
Receivables from members	₱2,874,103	₱40,078	₱2,914,181
Due from affiliates	30,758	–	30,758
Other receivables	112,281	4,932	117,213
AFS investments - unquoted equity investments	22,510	–	22,510
	₱3,039,652	₱45,010	₱3,084,662

As at December 31, 2011 and 2010, the Organization has no past due but not impaired receivables.

Liquidity Risk
Liquidity risk is the risk arising from potential inability to meet obligations when they become due at a reasonable cost and timely manner. The Organization manages liquidity risk by assessing the gap for additional funding and determining the best source and cost of funds on a monthly basis. To ensure sufficient liquidity, the Organization sets aside funds to pay currently maturing obligations. These funds are placed in short-term investments. Monitoring of daily cash position is being done to guide the management in making sure that sufficient liquidity is maintained. The Asset and Liability Management Committee was also established to regularly review liquidity position of the Organization monthly.

The tables below summarize the maturity profile of the financial instruments of the Organization based on contractual undiscounted cash flows (in thousands):

	2011					
	On demand	**Due within 1 month**	**1 to 3 months**	**3 to 12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and cash equivalents	**₱187,146**	**₱289,989**	**₱85,426**	**₱11,011**	**₱–**	**₱573,572**
Receivables - gross	**96,732**	**306,320**	**1,071,469**	**2,070,805**	**37,504**	**3,582,830**
AFS investments	–	–	–	–	**9,098**	**9,098**
Other assets	–	–	–	–	**25,584**	**25,584**
Future interest	–	**12,128**	**24,860**	**314,296**	**4,803**	**356,087**
Total Financial Assets	**283,878**	**608,437**	**1,181,755**	**2,396,112**	**76,989**	**4,547,171**
Financial Liabilities						
Accounts payable and accrued expenses	–	**23,719**	**63,960**	**111,179**	–	**198,858**
Borrowings	–	–	**106,318**	**123,805**	**1,321,136**	**1,551,259**
Due to members	–	**89,807**	**427,294**	**910,419**	**73,887**	**1,501,407**
Future interest	–	**594**	**22,509**	**82,238**	**142,583**	**247,924**
Total Financial Liabilities	–	**114,120**	**620,081**	**1,227,641**	**1,537,606**	**3,499,448**
Net Undiscounted Cash Flows	**₱283,878**	**₱494,317**	**₱561,674**	**₱1,168,471**	**(₱1,460,617)**	**₱1,047,722**

	2010					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and cash equivalents	₱94,989	₱117,877	₱144,100	₱–	₱–	₱356,966
Short-term investments	–	–	–	2,671	–	2,671
Receivables - gross	45,010	224,730	943,564	1,819,673	29,175	3,062,152
AFS investments	–	–	–	–	22,510	22,510
Other assets	–	–	–	–	23,630	23,630
Interest*	–	16,160	79,688	222,751	4,419	323,018
Total Financial Assets	139,999	358,767	1,167,352	2,045,095	79,734	3,790,947
Financial Liabilities						
Accounts payable and accrued expenses	–	28,813	46,477	60,886	–	136,176
Borrowings	–	34,572	122,907	924,436	627,692	1,709,607
Due to members	–	55,794	328,288	630,446	83	1,014,611
Future interest**	–	2,112	16,818	68,593	87,635	175,158
Total Financial Liabilities	–	121,291	514,490	1,684,361	715,410	3,035,552
Net Undiscounted Cash Flows	₱139,999	₱237,476	₱ 652,862	₱360,734	(₱635,676)	₱755,395

Market Risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

Interest rate risk

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

The Organization's total receivable from members is set at fixed nominal rates of 18% to 28% in 2011 and 24% to 30% in 2010 per annum. The shortest term of loan is three months while the longest term is one year.

The Organization generally pays fixed interest to the members at 2.5% per annum in 2011 and 2010.

The Organization generally pays fixed interest to the creditors at 2.0% to 10.0% per annum which is payable from one to five years. However, certain borrowings are subject to regular repricing of interest rates.

In order to manage its interest rate risk, the Organization places its excess funds in high yield investments and other short-term time deposits.

The following table demonstrates the sensitivity to reasonably possible changes in Organization's borrowings with all other variables held constant, of the Organization's excess of revenues over expenses (through the impact on floating rate borrowings). There is no impact on the Organization's equity other than those already affecting the excess of revenue over expenses.

	Increase (Decrease) in Interest Rates by	**Effect on Excess of Revenues over Expenses**
December 31, 2011	**+1.0%**	**(₱291,127)**
	(1.0)	**291,127**
December 31, 2010	+1.0%	(₱255,442)
	(1.0)	255,442

In 2011 and 2010, the Organization determined the reasonably possible change in interest rates using the percentage changes in market rate of borrowings on a quarterly and semi-annual basis.

Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Organization's principal transactions are carried out in Philippine Peso and its exposure to foreign currency risk arises primarily with respect to the Organization's cash in banks and short-term investments which are denominated in US dollar ($) and Euro(€).

The following table shows the foreign currency-denominated accounts of the Organization as at December 31, 2011 and 2010:

	2011		2010	
	In $	**In €**	In $	In €
Other receivable	**235,050**	**–**	235,050	–
Cash in Banks	**75,137**	**112,318**	218,983	147,426
Short-term investments	**–**	**–**	–	46,030
Total	**310,187**	**112,318**	454,033	193,456

In translating the foreign currency-denominated accounts to Philippine peso amounts, the exchange rate used was ₱43.84 to $1.0 in 2011 and 2010, and ₱56.84 to €1.0 and ₱58.0 to €1.0 in 2011 and 2010, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso exchange rate, with all other variables held constant, of the Organization's excess of revenue over expenses. There is no impact on the Organization's equity other than those already affecting the excess of revenue over expenses.

Currency	Change in Currency Rate in %	Effect on Excess of Revenue Over Expenses
2011		
USD	**+5.0**	**₱679,930**
	–5.0	**(679,930)**
Euro	**+5.0**	**319,208**
	–5.0	**(319,208)**
2010		
USD	+5.0	₱995,240
	–5.0	(995,240)
Euro	+5.0	561,022
	–5.0	(561,022)

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash in banks (Note 26)	**₱573,482,645**	₱356,808,568
Cash on hand	**88,913**	157,387
	₱573,571,558	₱356,965,955

Deposits in banks earn annual interest ranging from 0.3% to 4.9% in 2011 and 0.5% to 5.0% in 2010.

7. Short-term Investments

Short-term investments represent time deposits with maturities of more than three months but less than one year from reporting dates. Short-term investments earn annual interest rates ranging from 0.8% to 5.0% in 2010. The Organization has no short-term investments as at December 31, 2011.

8. Receivables from Members

This account consists of:

	2011	2010
Project assistance receivable (Note 26)	**₱3,180,300,694**	₱2,764,921,811
Member assistance receivable	**227,400,425**	149,259,630
	3,407,701,119	2,914,181,441
Less allowance for credit losses (Note 16)	**130,630,816**	66,079,277
	₱3,277,070,303	₱2,848,102,164

Project assistance receivable and member assistance receivable earn annual nominal administrative fee of 18.0% to 28.0% in 2011 and ranging from 24.0% to 30.0% in 2010.

As at December 31, 2011 and 2010, project assistance receivables with carrying value of ₱1.2 billion were used as collateral for interest-bearing borrowings (see Note 18). Project assistance receivables granted to members are partially secured by 'Due to members' amounting to ₱1.5 billion and ₱1.0 billion as at December 31, 2011 and 2010, respectively (see Note 19).

Receivables from members include past due receivables amounting to ₱91.8 million and ₱40.1 million as at December 31, 2011 and 2010, respectively.

9. Due from Affiliates

This account consists of:

	2011	2010
CARD Business Development Service Foundation (BDSF), Inc.	**₱36,632,977**	₱26,616,857
CARD Mutual Benefit Association (MBA), Inc.	**1,991,155**	586,331
CARD Employee Multi-Purpose Cooperative (EMPC)	**221,039**	–
CARD Bank	**160,919**	–
CARD MRI Information Technology (CMIT), Inc. (Note 26)	**114,857**	3,500,000
CARD MRI Development Institute (CMDI), Inc.	**96,485**	–
CARD SME Bank, Inc. [formerly Rural Bank of Sto. Tomas (Batangas), Inc.]	**4,683**	54,359
BotiCARD	**4,433**	–
CARD MRI Insurance Agency (CAMIA), Inc.	**846**	–
Total	**₱39,227,394**	₱30,757,547

BDSF, CMIT, EMPC, MBA, CARD SME Bank, CARD Bank, BotiCARD, CMDI and CAMIA are all members of CARD MRI group. These entities are considered related parties (affiliates) as they are operationally linked in influencing economic decisions.

Due from BDSF represents an unsecured loan amounting to ₱10.0 million and ₱26.6 million granted in 2011 and 2008 for BDSF's expansion program and working capital requirements, respectively. The loans are payable within a period of five years and earn an annual interest based on market lending rate.

Due from EMPC, MBA, CARD Bank, CMDI, CARD SME Bank, BotiCARD and CAMIA mainly consist of the affiliates' share in expenses paid for by the Organization. Due from CMIT represents noninterest-bearing intercompany advances.

10. **Other Receivables**

This account consists of:

	2011	2010
Accrued administrative fee receivable	**₱81,642,610**	₱63,017,147
Receivable from:		
Escrow	**31,669,414**	21,364,822
Other microfinance institutions	**9,649,196**	13,695,703
Officers and employees	**6,350,666**	5,359,358
Triputra Persada Rahmat (TPR)	–	10,304,592
Others	**3,797,557**	2,057,965
Accrued interest receivable	**2,791,999**	1,413,679
	135,901,442	117,213,266
Less allowance for credit losses (Note 16)	**4,937,653**	4,932,193
	₱130,963,789	₱112,281,073

Receivable from escrow pertains to advances to Bank Sahabat Purba Danarta (BSPD), an Indonesian bank. The fund is for future stock subscription in BSPD which is still on-hold due to certain restrictions in Indonesia.

Receivables from other microfinance institutions are short-term financing with interest rate of 12.0% which are granted to microfinance organizations operating in hard-to-reach areas to improve the life of the poor communities. Normal terms of these receivables range from one to three years.

Receivable from TPR, a microfinance institution in Indonesia, represents service fee for technical assistance provided by the Organization to TPR during 2010. The technical assistance covers trainings and workshops for microfinance operation (see Note 23). In 2011, the receivable from TPR was collected and transferred to escrow account.

Others include receivables from personnel representing cash advances for micro-economic business operations such as program monitoring and evaluation.

11. **Available-for-Sale Investments**

This account represents unquoted equity investments which include investment in preferred stocks of CARD Bank amounting to ₱2.5 million as at December 31, 2011 and 2010 (see Note 26).

In 2011, the Organization's investment in Responsible Investment for Solidarity and Empowerment (RISE) Financing Company, Inc. amounting to ₱13.4 million was reclassified from 'AFS investments' to 'Investment in associates' since the Organization has demonstrated significant influence over RISE (see Notes 12 and 26).

As at December 31, 2011 and 2010, unrealized losses on AFS investments reported under equity amounted to ₱0.2 million.

12. **Investment in Associates**

This account includes investment in common stocks of:

	2011	2010
Acquisition cost:		
CARD SME Bank - 39.6% owned in 2011 and 2010	**₱69,001,601**	₱69,001,601
CARD Bank - 29.5% owned in 2011 and 40% in 2010	**60,730,900**	53,071,100
RISE - 32.7% owned in 2011	**13,411,721**	–
CMIT - 30.0% owned in 2011 and 2010	**1,500,000**	1,500,000
CAMIA - 38.6% owned in 2011 and a subscription deposit in 2010	**610,000**	611,000
BotiCARD - 15.0% owned in 2011	**500,000**	–
	145,754,222	124,183,701
Accumulated equity in net earnings:		
Balance at beginning of year	**70,446,630**	42,984,197
Equity in net earnings (Note 23)	**57,283,088**	38,462,433
Dividends received (Note 26)	**(5,574,073)**	(11,000,000)
Balance at end of year	**122,155,645**	70,446,630
Change in equity in net unrealized gain on available-for-sale investments of associates	**309,477**	–
Allowance for impairment losses	**(10,306,516)**	(10,306,516)
	₱257,912,828	₱184,323,815

On December 16, 2011, the BOT approved and confirmed the waiver of Organization's pre-emptive right to subscribe for proportionate shares equivalent to 849,225 common stock of CARD Bank in favor of new qualified subscribers and investors. As a result of the waiver, the Organization's ownership interest over CARD Bank decreased to 29.5% in 2011 from 40.0% in 2010.

Despite the Organization's ownership of less than 20.0%, BotiCARD was considered as an associate since the Organization demonstrated influence in the economic decisions.

The following table summarizes the financial information (in thousands) of the Organization's investment in associates:

	2011			
	Total Assets	**Total Liabilities**	**Total Revenues**	**Net Income**
CARD Bank	**₱3,445,768**	**₱2,831,684**	**₱1,195,499**	**₱165,263**
CARD SME Bank	**555,304**	**412,928**	**158,842**	**8,696**
CMIT	**134,159**	**87,609**	**87,481**	**10,976**
RISE	**50,683**	**1,745**	**3,795**	**129**
CAMIA	**24,378**	**18,814**	**14,763**	**3,485**
BotiCARD	**7,987**	**2,326**	**9,762**	**123**

	2010			
	Total Assets	Total Liabilities	Total Revenues	Net Income
CARD Bank	₱2,763,503	₱2,411,092	₱835,600	₱86,383
CARD SME Bank	376,407	263,047	101,264	5,461
CMIT	72,493	61,896	31,209	5,597
CAMIA	26,700	24,436	6,875	328

13. **Property and Equipment**

The composition of and movements in this account follow:

	2011					
	Land	**Building and Improvements**	**Furniture and Equipment**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost						
Balance at beginning of year	**₱40,295,401**	**₱49,497,846**	**₱62,931,009**	**₱61,541,763**	**₱12,004,660**	**₱226,270,679**
Additions	**2,551,787**	**1,041,447**	**19,505,898**	**527,655**	**8,054,340**	**31,681,127**
Reclassifications	**–**	**20,059,000**	**–**	**–**	**(20,059,000)**	**–**
Disposals	**(72,244)**	**(4,863,722)**	**(2,270,954)**	**(3,720,164)**	**–**	**(10,927,084)**
Balance at end of year	**42,774,944**	**65,734,571**	**80,165,953**	**58,349,254**	**–**	**247,024,722**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**21,110,922**	**33,406,448**	**35,371,141**	**–**	**89,888,511**
Depreciation and amortization	**–**	**5,505,804**	**18,755,940**	**13,704,439**	**–**	**37,966,183**
Disposals	**–**	**(1,363,722)**	**(2,253,763)**	**(3,635,733)**	**–**	**(7,253,218)**
Balance at end of year	**–**	**25,253,004**	**49,908,625**	**45,439,847**	**–**	**120,601,476**
Net Book Value	**₱42,774,944**	**₱40,481,567**	**₱30,257,328**	**₱12,909,407**	**₱–**	**₱126,423,246**

	2010					
	Land	Building and Improvements	Furniture and Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
Balance at beginning of year	₱40,629,891	₱51,135,027	₱46,696,169	₱45,420,942	₱19,214,692	₱203,096,721
Additions	249,510	279,759	19,175,007	18,821,371	12,004,660	50,530,307
Reclassifications	(400,000)	(1,916,940)	–	–	(19,214,692)	(21,531,632)
Disposals	(184,000)	–	(2,940,167)	(2,700,550)	–	(5,824,717)
Balance at end of year	40,295,401	49,497,846	62,931,009	61,541,763	12,004,660	226,270,679
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	14,050,338	19,575,950	23,176,792	–	56,803,080
Depreciation and amortization	–	7,943,524	15,225,074	14,135,649	–	37,304,247
Reclassification	–	(882,940)	–	–	–	(882,940)
Disposals	–	–	(1,394,576)	(1,941,300)	–	(3,335,876)
Balance at end of year	–	21,110,922	33,406,448	35,371,141	–	89,888,511
Net Book Value	₱40,295,401	₱28,386,924	₱29,524,561	₱26,170,622	₱12,004,660	₱136,382,168

Land with carrying value of ₱9.5 million partially secures interest-bearing borrowings amounting to ₱244.8 million and ₱282.2 million as at December 31, 2011 and 2010, respectively (see Note 18).

The Organization granted CMDI the usufruct over certain properties consisting of land and improvements for use as CMDI's office and training center (see Note 26).

The details of depreciation and amortization included under project related expenses, research and other expenses in the statement of comprehensive income follow (see Notes 22 and 23):

	2011	2010
Property and equipment	**₱37,966,183**	₱37,304,247
Investment properties (Note 14)	**3,705,725**	7,246,595
	₱41,671,908	₱44,550,842

Disposal of property and equipment resulted to ₱0.5 million gain in 2011 and ₱1.1 million loss in 2010 (see Note 26).

As at December 31, 2011 and 2010, the cost of fully-depreciated assets still in use in the Organization's operations amounted to ₱36.9 million and ₱21.3 million, respectively.

14. Investment Properties

The composition of and movements in this account follow:

	2011			2010		
	Land	**Building and Improvements**	**Total**	Land	Building and Improvements	Total
Cost						
Balance at beginning of year	**₱16,727,507**	**₱47,227,090**	**₱63,954,597**	₱16,327,507	₱27,416,228	₱43,743,735
Additions	**–**	**–**	**–**	–	520,000	520,000
Reclassification	**–**	**–**	**–**	400,000	21,131,632	21,531,632
Disposal	**–**	**–**	**–**	–	(1,840,770)	(1,840,770)
Balance at end of year	**16,727,507**	**47,227,090**	**63,954,597**	16,727,507	47,227,090	63,954,597
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**20,045,165**	**20,045,165**	–	13,756,400	13,756,400
Depreciation	**–**	**3,705,725**	**3,705,725**	–	7,246,595	7,246,595
Reclassification	**–**	**–**	**–**	–	882,940	882,940
Disposal	**–**	**–**	**–**	–	(1,840,770)	(1,840,770)
Balance at end of year	**–**	**23,750,890**	**23,750,890**	–	20,045,165	20,045,165
Allowance for impairment losses	**(4,722,589)**	**–**	**(4,722,589)**	(4,722,589)	–	(4,722,589)
Net Book Value	**₱12,004,918**	**₱23,476,200**	**₱35,481,118**	₱12,004,918	₱27,181,925	₱39,186,843

The Organization leased properties to CARD Bank branches. Rent income from investment properties included in 'Other revenue' in the statement of comprehensive income amounted to ₱5.3 million and ₱4.9 million in 2011 and 2010, respectively (see Notes 23 and 25). Direct operating expenses on investment properties that generated rental income in 2011 and 2010 included under 'Depreciation and amortization' and 'Taxes and licenses', amounted to ₱4.4 million and ₱7.6 million, respectively (see Note 22).

The fair values of investment properties amounted to ₱12.0 million for land and ₱37.7 million for buildings as at December 31, 2011 and 2010.

15. Other Assets

This account consists of:

	2011	2010
Prepaid expenses	**₱15,459,879**	₱14,283,724
Restricted funds	**8,108,580**	8,655,753
Prepaid subscription (Note 26)	**8,000,000**	–
Net retirement asset (Note 21)	**1,536,447**	61,810,627
Supplies on hand	**15,660**	135,031
Others	**17,475,229**	14,974,551
	50,595,795	99,859,686
Less allowance for impairment losses	**2,074,903**	1,815,137
	₱48,520,892	₱98,044,549

Restricted funds represent cash deposits held by banks as collateral for borrowings from Development Bank of the Philippines (DBP) (see Note 18). Restricted funds as at December 31, 2011 and 2010 include placement in CARD Bank amounting to ₱2.9 million and ₱2.5 million, respectively, which is restricted as to use for a period of three years; and a hold-out deposit in CARD SME Bank amounting to ₱5.2 million and ₱5.0 million as at December 31, 2011 and 2010, respectively. Such deposit is intended to secure the interest of CARD SME Bank concerning its deposits with CARD Bank to which the Organization is a stockholder (see Note 26). These funds earn annual interest ranging from 2.9% to 6.0% in 2011 and 2010.

Prepaid expenses include creditable withholding tax amounting to ₱2.1 million and ₱1.8 million which is provided with 100.0% allowance for impairment losses in 2011 and 2010, respectively.

Others include grant fund from German Savings Foundation in 1997 amounting to ₱15.3 million and ₱15.0 million as at December 31, 2011 and 2010, respectively, intended as revolving fund of CARD Bank earning 2.0% annual interest rate in 2011 and 2010.

Changes in the allowance for impairment losses are as follows:

	2011	2010
Balance at beginning of year	**₱1,815,137**	₱–
Provision for impairment losses (Note 23)	**259,766**	1,815,137
Balance at end of year	**₱2,074,903**	₱1,815,137

16. Allowance for Credit Losses

The movements in the allowance for credit losses follow:

	2011				
	Receivables from Members (Note 8)				
	Project Assistance Receivable	**Member Assistance Receivable**	**Total**	**Other Receivables** (Note 10)	**Total**
Balance at beginning of year	**₱62,980,696**	**₱3,098,581**	**₱66,079,277**	**₱4,932,193**	**₱71,011,470**
Provision for credit losses (Note 22)	**81,108,683**	**5,690,822**	**86,799,505**	**744,190**	**87,543,695**
Accounts written-off	**(21,198,772)**	**(1,049,194)**	**(22,247,966)**	**(738,730)**	**(22,986,696)**
Balance at end of year	**₱122,890,607**	**₱7,740,209**	**₱130,630,816**	**₱4,937,653**	**₱135,568,469**

	2010				
	Receivables from Members (Note 8)				
	Project Assistance Receivable	Member Assistance Receivable	Total	Other Receivables (Note 10)	Total
Balance at beginning of year	₱44,351,259	₱2,106,531	₱46,457,790	₱2,966,966	₱49,424,756
Provision for credit losses (Note 22)	27,560,315	1,542,234	29,102,549	1,965,227	31,067,776
Accounts written-off	(8,930,878)	(550,184)	(9,481,062)	–	(9,481,062)
Balance at end of year	₱62,980,696	₱3,098,581	₱66,079,277	₱4,932,193	₱71,011,470

17. Accounts Payable and Accrued Expenses

This account consists of:

	2011	2010
Accounts payable	**₱103,524,377**	₱78,389,770
Accrued expenses	**112,994,417**	65,466,890
Accrued interest (Note 18)	**10,399,197**	14,201,901
Funds held-in-trust	**9,882,302**	6,127,711
Due to affiliates (Note 26)	**5,132,160**	6,124,766
	₱241,932,453	₱170,311,038

Accounts payable include grant payable to certain community and scholarship projects of the Organization totaling ₱77.7 million and ₱55.2 million as at December 31, 2011 and 2010, respectively. It also includes unearned rent amounting to ₱0.4 million and ₱0.5 million as at December 31, 2011 and 2010, respectively (see Note 26). Accrued expenses include accruals for vacation leave amounting to ₱43.1 million and ₱34.1 million as at December 31, 2011 and 2010, respectively. It also includes accrued grants and donation amounting to ₱14.0 million as at December 31, 2011. Funds held-in-trust represents grants that are allocated for a specific purpose which will be returned to the donor if the specific purpose is not complied with.

18. **Borrowings**

This account consists of borrowings from:

	2011	2010
Oikocredit Foundation Philippines, Inc. (Oikocredit)	**₱244,800,000**	₱282,200,000
Security Bank Corporation (SBC)	**239,500,000**	87,500,000
Rizal Commercial Banking Corporation (RCBC)	**224,500,000**	87,500,000
Allied Banking Corporation (ABC)	**188,500,000**	87,500,000
BDO Unibank, Inc. (BDOUI)	**167,500,000**	45,500,000
Deutsche Bank	**74,895,960**	74,895,960
People's Credit and Finance Corporation (PCFC)	**73,241,970**	131,868,960
Philippine National Bank (PNB)	**63,000,000**	–
Bank of the Philippine Islands (BPI)	**60,000,000**	290,000,000
Land Bank of the Philippines (LBP)	**50,000,000**	94,727,300
Metropolitan Bank and Trust Company (MBTC)	**50,000,000**	50,000,000
BDO Private Bank, Inc. (BDOPBI)	**42,000,000**	21,000,000
Cordaid	**24,670,000**	29,550,000
BDO Leasing (BDOL)	**15,000,000**	21,000,000
DBP (Note 15)	**13,333,333**	26,666,667
Small Business Guarantee and Finance Corporation (SBGFC)	**10,317,586**	60,417,477
BPI Globe BanKO (BGB)	**10,000,000**	70,000,000
Hongkong Shanghai Banking Corporation (HSBC)	**–**	70,000,000
Planters Development Bank (PDB)	**–**	70,000,000
Grameen Foundation	**–**	4,518,610
Plan International	**–**	2,750,000
National Livelihood Support Fund (NLSF)	**–**	2,011,657
United Coconut Planters Bank (UCPB)	**–**	100,000,000
	1,551,258,849	1,709,606,631
Less unamortized debt issue costs	**(9,393,010)**	–
	₱1,541,865,839	₱1,709,606,631

The borrowings from Oikocredit are partly secured by the Organization's land in 2011 and 2010 (see Note 13) and project assistance receivable amounting to ₱162.0 million and ₱140.0 million as at December 31, 2011 and 2010, respectively (see Note 8).

The borrowings from ABC, BDOL, BDOPBI, BDOUI, BPI, DBP, LBP, NLSF, PCFC, RCBC, SBC, UCPB and PNB are secured by the Organization's project assistance receivable amounting to ₱994.4 million and ₱810.9 million as at December 31, 2011 and 2010, respectively while the borrowings from HSBC, PDB, BGB and SBGFC are secured by the Organization's project assistance receivable amounting to ₱20.3 million and ₱270.4 million as at December 31, 2011 and 2010 (see Note 8).

Financing obtained from creditors are used to fund the Organization's project assistance receivable. Annual interest rates on these loans range from 2.0% to 10.0% in 2011 and 2010, and are payable in various annual, semi-annual and quarterly installments until 2016 (see Note 17).

19. Due to Members

Due to members represents aggregate contribution of members for capital build-up purposes which then serve as partial security for repayable project assistance receivable granted to them (see Note 8). Due to members is built up through weekly members' contribution of ₱50.0 per week in 2011 and 2010.

20. Maturity Profile of Assets and Liabilities

The table below shows an analysis of the assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date (in thousands).

	2011			2010		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	**₱573,572**	**₱–**	**₱573,572**	₱356,966	₱–	₱356,966
Short-term investments	**–**	**–**	**–**	2,671	–	2,671
Receivables	**3,414,695**	**32,566**	**3,447,261**	2,966,899	24,241	2,991,140
AFS investments	**–**	**9,098**	**9,098**	–	22,510	22,510
Other assets	**–**	**25,584**	**25,584**	–	23,630	23,630
Nonfinancial Assets						
Investment in associates	**–**	**257,913**	**257,913**	–	184,324	184,324
Property and equipment	**–**	**126,423**	**126,423**	–	136,382	136,382
Investment properties	**–**	**35,481**	**35,481**	–	39,187	39,187
Other assets	**–**	**22,937**	**22,937**	–	74,415	74,415
Total Assets	**₱3,988,267**	**₱510,002**	**₱4,498,269**	₱3,326,536	₱504,689	₱3,831,225
Financial Liabilities						
Accounts payable and accrued expenses	**₱198,858**	**₱–**	**₱198,858**	₱136,176	₱–	₱136,176
Borrowings	**230,123**	**1,311,743**	**1,541,866**	1,081,915	627,692	1,709,607
Due to members	**1,427,521**	**73,887**	**1,501,408**	1,014,528	83	1,014,611
Nonfinancial Liability						
Accounts payable and accrued expenses	**–**	**43,074**	**43,074**	–	34,135	34,135
Total Liabilities	**₱1,856,502**	**₱1,428,704**	**₱3,285,206**	₱2,232,619	₱661,910	₱2,894,529

21. Retirement Plan

The Organization, CARD Bank, Inc., CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc. (formerly Rural Bank of Sto. Tomas, Inc.), CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation (BDSF), Inc., CARD MRI Information Technology (CMIT), Inc., BotiCARD, Inc., and CARD MRI Development Institute (CMDI), Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (the Plan) - covering all of their regular employees. The Plan has a projected unit cost format and is financed solely by the Organization and its related parties. The Plan complies with the requirement of Republic Act No. 7641 (Retirement Law). The Plan provided lump sum benefits equivalent to at least one half (1/2) month salary for every year of service, a fraction of at least six months being considered as one whole year upon retirement, death, total and permanent disability, involuntary separation (except cause) or voluntary separation after completion of at least ten years of service with the participating companies. However, starting 2011, the Plan provides lump sum benefits equivalent to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year upon retirement, death, total and permanent disability, involuntary separation (except cause) or voluntary separation after completion of at least one year of service with the participating companies.

The principal actuarial assumptions used in determining retirement liability for the Organization's retirement plan as at January 1, 2011 and 2010 are shown below:

	2011	2010
Discount rate	**9.5%**	11.2%
Expected rate of return on assets	**5.0**	8.0
Future salary increases	**12.0**	10.0
Average remaining working lives (in years)	**23.0**	23.0

As at December 31, 2011, discount rate used in determining the present value of defined benefit obligation is 7.1%.

The amounts of retirement asset recognized in the statement of financial position under 'Other assets' are as follows:

	2011	2010
Fair value of plan assets	**₱117,969,920**	₱107,893,200
Present value of defined benefit obligation	**408,342,400**	156,203,500
Deficit	**(290,372,480)**	(48,310,300)
Net unrecognized actuarial loss	**283,367,127**	110,120,927
Unrecognized past service cost	**8,541,800**	–
Net retirement asset	**₱1,536,447**	₱61,810,627

The movements in the retirement asset are as follows:

	2011	2010
Balance at beginning of year	**₱61,810,627**	₱60,354,827
Retirement expense	**(77,386,900)**	(14,063,200)
Actual contributions	**17,112,720**	15,519,000
Balance at end of year	**₱1,536,447**	₱61,810,627

The movements in the fair value of plan assets recognized are as follows:

	2011	2010
Balance at beginning of year	**₱107,893,200**	₱87,716,800
Contribution paid by employer	**17,112,720**	15,519,000
Transfer to the retirement plan of other MRI entity	**(12,710,400)**	(907,900)
Expected return	**5,394,700**	7,017,300
Actuarial gain (loss)	**739,500**	(989,700)
Benefits paid	**(459,800)**	(462,300)
Balance end of year	**₱117,969,920**	₱107,893,200

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2011	2010
Time deposits and special savings accounts	**70.2%**	48.2%
Government securities	**29.8**	51.8
	100.0%	100.0%

The overall expected rate of return on plan assets represents expected long-term rate on the retirement fund investments, net of operating expenses (e.g., trustee's fee, actuarial valuation fees, service charges etc.).

The actual return on plan assets amounted to ₱6.1 million and ₱6.0 million in 2011 and 2010, respectively.

The Organization plans to contribute ₱132.7 million to its retirement fund in 2012.

The movements in the present value of defined benefit obligation are as follows:

	2011	2010
Balance at beginning of year	**₱156,203,500**	₱58,025,800
Actuarial loss	**178,094,400**	79,419,200
Current service cost	**37,735,200**	13,635,600
Past service cost	**34,702,600**	–
Interest cost	**14,776,900**	6,493,100
Transfer to the retirement plan of other MRI entity	**(12,710,400)**	(907,900)
Benefits paid	**(459,800)**	(462,300)
Balance at end of year	**₱408,342,400**	₱156,203,500

The movements in unrecognized actuarial loss are as follows:

	2011	2010
Balance at beginning of year	**₱110,120,927**	₱30,663,827
Actuarial loss for the year - obligation	**178,094,400**	79,419,200
Actuarial loss recognized	**(4,108,700)**	(951,800)
Actuarial loss (gain) for the year - plan assets	**(739,500)**	989,700
Balance at end of year	**₱283,367,127**	₱110,120,927

The amount of retirement expense included in 'Salaries, wages and employee benefits' under 'Project related expenses' and 'Other administrative expenses' account in the statement of comprehensive income are as follows:

	2011	2010
Current service cost	**₱37,735,200**	₱13,635,600
Amortization of vested past service cost	**25,893,900**	–
Interest cost	**14,776,900**	6,493,100
Expected return on plan assets	**(5,394,700)**	(7,017,300)
Amortization of actuarial loss	**4,108,700**	951,800
Amortization of non-vested past service cost	**266,900**	–
	₱77,386,900	₱14,063,200

Information on the Organization's retirement plan for the current and prior years follow (in thousands):

	2011	2010	2009	2008	2007
Fair value of plan assets	**₱117,970**	₱107,893	₱87,717	₱48,584	₱41,290
Present value of defined benefit obligation	**408,342**	(156,203)	(58,026)	(22,008)	(46,983)
Excess (deficit)	**(290,372)**	(48,310)	29,691	26,576	(5,693)
Experience adjustments on plan liabilities	**(5,900)**	(9,633)	7,707	18,883	(1,115)
Experience adjustments on plan assets	**740**	(990)	15,826	194	(11,013)

22. Project Related Expenses

This account consists of:

	2011	2010
Salaries, wages and employee benefits (Notes 21 and 26)	**₱729,789,326**	₱491,241,395
Interest expense (Note 18)	**154,090,878**	102,134,541
Transportation and travel	**151,172,587**	115,396,786
Provision for credit losses (Note 16)	**87,543,695**	31,067,776
Supplies and materials	**66,602,666**	59,148,342
Rental expenses (Note 25)	**63,094,685**	51,746,378
Staff training and development	**49,160,615**	30,863,935
Information technology (Note 26)	**42,489,522**	23,655,815
Depreciation and amortization (Notes 13 and 14)	**33,409,219**	27,892,660
Program monitoring and evaluation	**29,895,062**	35,885,056
Client training and development	**27,942,842**	29,090,277
Communication and postage	**23,864,882**	14,574,848
Utilities	**19,526,147**	15,715,995
Insurance expense	**9,707,324**	9,351,537
Taxes and licenses (Note 14)	**8,145,189**	8,333,472
Janitorial, messengerial and security	**6,836,640**	6,900,114
Seminars and meetings	**6,169,415**	3,636,099
Others	**36,786,367**	31,432,352
	₱1,546,227,061	₱1,088,067,378

23. **Other Revenue and Other Administrative Expenses**

Other revenue consists of:

	2011	2010
Equity in net earnings of associates (Note 12)	**₱57,283,088**	₱38,462,433
Interest (Notes 6, 7, 15 and 26)	**16,193,945**	9,847,814
Rent (Notes 14 and 25)	**5,331,368**	4,852,158
Dividend income (Note 26)	**201,392**	378,303
Miscellaneous (Note 26)	**4,866,579**	13,870,750
	₱83,876,372	₱67,411,458

Miscellaneous includes income from providing technical assistance to other microfinance institutions amounting to nil and ₱8.8 million in 2011 and 2010, respectively.

Other administrative expenses consist of:

	2011	2010
Salaries, wages and employee benefits (Notes 21 and 26)	**₱9,273,577**	₱6,589,910
Depreciation and amortization (Notes 13 and 14)	**7,699,785**	16,109,651
Transportation and travel	**4,838,471**	5,974,309
Staff training and development	**3,338,688**	2,348,434
Seminars and meetings	**3,126,708**	3,054,803
Supplies and materials	**1,936,363**	912,142
Program monitoring and evaluation	**1,625,180**	667,558
Representation	**1,527,801**	1,331,907
Management and other professional fees	**1,275,044**	1,539,237
Taxes and licenses	**749,959**	414,699
Provision for impairment losses (Notes 14 and 15)	**259,766**	6,537,726
Miscellaneous	**1,578,551**	1,970,809
	₱37,229,893	₱47,451,185

Depreciation and amortization on property and equipment and investment properties, totaling ₱41.7 million in 2011 and ₱44.6 million in 2010, are included in the following expenses (see Notes 13 and 14):

	2011	2010
Project related expenses (Note 22)	**₱33,409,219**	₱27,892,660
Research	**562,904**	548,531
Other expenses	**7,699,785**	16,109,651
	₱41,671,908	₱44,550,842

24. **Commitments and Contingencies**

There are commitments, guarantees and contingent liabilities that arise in the normal course of the Organization’s operations which are not reflected in the accompanying financial statements. The management is of the opinion that losses, if any, from these commitments and contingencies will not have a material effect on the Organization’s financial statements as at December 31, 2011 and 2010.

25. **Lease Contracts**

As Lessee

The Organization leases the premises occupied by its branches, as well as staff houses of its employees. The lease contracts are for periods ranging from five months to twelve months and are renewable upon mutual agreement between the Organization and the lessors. As at December 31, 2011 and 2010, total 'Rental expense' under 'Project related expenses' amounted to ₱63.1 million and ₱51.7 million, respectively (see Note 22).

The future aggregate minimum lease payments within one year in 2011 and 2010 under non-cancelable operating leases amounted to ₱51.7 million and ₱65.1 million, respectively.

As Lessor

The Organization's operating lease contracts generally have terms of one year only, except for the lease contract entered into with BDSF in 2010 which has a term of five years and five months and CARD SME Bank which is renewable every two years. Operating lease income included under 'Other revenue' in 2011 and 2010 amounted to ₱5.3 million and ₱4.9 million, respectively (see Note 23).

The future aggregate minimum rentals receivable under operating lease in 2011 and 2010 amounted to ₱2.5 million and ₱2.4 million, respectively, within one year and ₱60,000 after one year but within five years. The lease contract with BDSF is already prepaid as at December 31, 2010 (see Note 26).

26. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decision. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between parties are based on terms similar to those offered to non-related parties.

In the normal course of business, the Organization has transactions with related parties described below:

			Elements of Transaction			
			Statement of Financial Position		Statement of Comprehensive Income	
Related Party	Relationship	Nature of Transaction	**2011**	2010	**2011**	2010
CARD Bank	Associate	Cash and cash equivalents	**₱143,316,053**	₱36,827,435		
		AFS investments	**2,517,400**	2,517,400		
		Investment in associate	**175,581,656**	124,828,446		
		Other assets (Note 15)	**18,167,409**	17,474,551		
		Due from affiliates	**160,919**	–		
		Due to affiliates	**834**	301,723		
		Equity in net earnings			**₱48,686,530**	₱34,620,820
		Share in unrealized AFS loss			**43,220**	–
		Interest income			**3,000,803**	2,281,966
		Dividend income			**201,392**	378,303
		Rent income			**4,455,000**	4,255,000
CMDI	Affiliate	Due from affiliates	**96,485**	–		
		Due to affiliates	**674,623**	10,973		
		Grants and donations			**5,000,000**	–
		Rent income			**180,000**	30,000
MBA	Affiliate	Due to affiliates	**4,311,665**	5,697,145		
		Due from affiliates	**1,991,155**	586,331		
		Rent income			**192,000**	184,000
		Grants and donations			**4,000,000**	–

			Elements of Transaction			
			Statement of Financial Position		Statement of Comprehensive Income	
Related Party	Relationship	Nature of Transaction	**2011**	2010	**2011**	2010
CARD SME Bank	Associate	Cash and cash equivalents	**₱31,938,067**	₱32,413,353		
		Due from affiliates	**4,683**	54,359		
		Investment in associate	**60,726,933**	55,705,228		
		Other assets (Note 15)	**5,220,000**	5,000,000		
		Interest income			**₱1,483,046**	₱1,468,948
		Equity in net earnings			**4,669,009**	2,162,472
		Share in unrealized AFS gain			**352,697**	–
		Rent income			**61,316**	63,158
BDSFI	Affiliate	Due from affiliates	**36,632,977**	26,616,857		
		Due to affiliates	**33,747**	592,193		
		Interest income			**–**	1,862,530
		Rent income			**383,052**	275,000
		Grants and donations			**15,000,000**	7,500,000
EMPC	Affiliate	Due from affiliates	**221,039**	–		
		Due to affiliates	**82,533**	56,248		
CAMIA	Associate	Due from affiliates	**846**	–		
		Due to affiliates	**12,705**	5,390		
		Investment in associate	**2,195,679**	611,000		
		Equity in net earnings			**1,659,752**	–
CMIT	Associate	Due from affiliate	**114,857**	3,500,000		
		Investment in associate	**6,472,026**	3,179,141		
		Due to affiliates	**9,153**	8,462		
		Rent income			**60,000**	45,000
		Equity in net earnings			**3,292,885**	1,679,141
		Other revenue			**–**	5,000,000
		Information technology			**40,180,416**	22,138,029
BotiCARD	Associate	Due from affiliates	**4,433**	–		
		Due to affiliates	**6,900**	–		
		Investment in associate	**518,392**	–		
		Equity in net earnings			**18,392**	–
RISE	Associate	Investment in associate	**13,643,423**	–		
		Equity in net earnings			**231,701**	–

Other related party transactions include:

a. The Organization leases to BDSF, CARD Bank, CMDI, CMIT and MBA office spaces for their operations and to CARD SME Bank, land area where its building is situated. Lease contracts are renewable annually, except for that with CARD SME Bank which is renewable every two years. Revenue from these leases, which represents reimbursement of the Organization's depreciation and other expenses, amounting to ₱5.3 million in 2011 and ₱4.9 million in 2010, are included as part of 'Other revenue' in the statement of comprehensive income (see Note 23). There are no outstanding receivables arising from these lease agreements as at December 31, 2011 and 2010.

   In 2010, the Organization entered into a lease contract with a term of five years and five months with BDSF which will start on January 1, 2011. Such lease contract is prepaid already for the whole term. Total unearned rent included under 'Accounts payable and accrued expenses' as at December 31, 2011 and 2010 amounted to ₱0.4 million and ₱0.5 million, respectively (see Note 17).

b. On behalf of CARD MBA, the Organization collects a loan redemption fund equivalent to 1.5% of loans granted to clients as guarantee in case of borrower's death. Also, the Organization weekly collects ₱20.0 for life insurance of clients and their dependents of which ₱5.0 goes to retirement provident fund that may be encashed upon separation of client from CARD MBA. The liability of the Organization arises from total collection of loan redemption fund and the weekly premium net of cost of transportation and supplies incurred during the collection.

c. The Organization entered into a usufruct agreement with CMDI. The grant of the usufruct was made by the Organization without consideration and for the purpose of assisting CMDI in its objective of pursuing the development of microfinance in the country. The usufruct shall be for a period of ten years from July 1, 2005 to June 30, 2015, unless sooner terminated as provided in the usufruct agreement. The usufruct is subject to certain terms and conditions as agreed by the Organization and CMDI.

d. In 2011, the Organization sold a parcel of land and building to CARD Bank amounting to ₱4.1 million which resulted to gain on sale of ₱0.5 million (see Note 13).

e. In 2011, the Organization received cash dividend from common shares of CARD Bank and CAMIA amounting to ₱5.5 million and ₱74,073 (see Note 12).

f. In 2010, the Organization acquired 30% ownership interest in CMIT for ₱1.5 million. In 2011, the Organization prepaid ₱8.0 million as advance subscription for future increase in authorized capital stock of CMIT and recorded as subscription under 'Other assets' (see Note 15).

g. In 2011 and 2010, the Organization entered into a System Maintenance Agreement with CMIT wherein CMIT shall provide information technology-related support services to the Organization including software maintenance of the Organization's CARD e-System, hardware maintenance, set-up of network and centers and technical support, among others. Expenses incurred by the Organization relating to these services amounted to ₱30.1 million and ₱23.7 million in 2011 and 2010, respectively.

h. In 2011, the Organization entered into a Memorandum of Agreement (MOA) with CMIT wherein CMIT shall provide services for a new Core Banking System (CBS) to upgrade the existing CBS to meet the requirements of Organization's expanding microfinance operations. Ownership of the system shall remain with CMIT. Expenses incurred by the Organization for these software services, maintenance and other IT-related support services amounted to ₱12.4 million in 2011. Implementation of the new CBS will start in 2012.

i. The Organization engaged CMDI for training and development of its members and employees. Related seminar and training expenses incurred by the Organization amounted to ₱15.6 million and ₱11.1 million in 2011 and 2010, respectively (shown as part of 'Staff training and development' and 'Client training and development' in the statement of comprehensive income).

j. Transitioned branches from the Organization to CARD Bank were 24 and 15 in 2011 and 2010, respectively. CARD Bank's BOD passed a resolution for the transition of the branches from the Organization after receipt of approval from the BSP to establish additional microfinance-oriented branches on January 5, 2011 for 2011 additional branches and on May 24, 2010 and December 9, 2009 for 2010 additional branches.

k. The short-term employee benefits of key management personnel of the Organization amounted to ₱22.0 million in 2011 and ₱18.1 million in 2010. Non-monetary benefits includes ₱2.7 million accrued compensation granted in 2011 to members of Executive and Management Committee which will be used as payment of their outstanding common stock subscription in CARD Bank and CARD SME Bank. In addition, the Organization accrued ₱2.6 million as additional contribution of members to CARD EMPC. Post-retirement benefits of the key management personnel amounted to ₱2.7 million in 2011 and ₱0.5 million in 2010.

27. Appropriation of Fund Balance

On June 20, 2009, the Organization's BOT approved the appropriation of ₱50.0 million for future acquisitions and/or improvements of investment properties. All subsequent receipts generated from these investment properties are also treated as additional appropriated fund in the succeeding years.

On December 31, 2011 and 2010, receipts of rental income amounting to ₱5.3 million and ₱4.6 million, respectively, are appropriated, bringing the total appropriation to ₱59.9 million and ₱54.6 million as at December 31, 2011 and 2010, respectively.

28. Approval for the Release of the Financial Statements

The accompanying financial statements of the Organization were reviewed and approved for release by the Organization's BOT on March 17, 2012.

29. Supplementary Information Required Under Revenue Regulations 19-2011

In addition to the required supplementary information under Revenue Regulations RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements.

Being not organized for profit and since no part of its net income inures to the benefit of any private individual or member, the Organization's income from activities in pursuit of the purpose for which the Organization was organized is exempt from income tax. Accordingly, the schedule of taxable sales/receipts/fees, related cost of sales/services, and non-operating and taxable other income are not applicable to the Organization.

The Organization has the following exempt itemized deductions for the year ended December 31, 2011:

Charitable contribution	₱54,690,730
Salaries and allowances	9,273,577
Research and development	8,012,537
Depreciation	7,699,785
Transportation and travel	4,838,471
Staff training and development	3,338,688
Seminars and meetings	3,126,708
Supplies and materials	1,936,363
Program monitoring and evaluation	1,625,180
Representation	1,527,801
Management and consultancy fee	1,275,044
Taxes and licenses	749,959
Repairs and maintenance	628,090
Communication	478,281
Bad debts	259,766
Advertising	225,009
Miscellaneous	247,171
Total expenses	₱99,933,160

30. **Supplementary Information Required Under Revenue Regulations 15-2010**

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002 which provides that starting 2010, the notes to the financial statements shall include information on taxes and licenses paid or accrued during the year.

The Organization reported and/or paid the following taxes in 2011:

The components of 'Taxes and licenses' recognized in the statement of comprehensive income and as part of cost of 'Borrowings' follow:

Documentary stamp tax	₱6,420,237
Business permits and licenses	5,442,424
Real property tax	722,658
Community tax certificate	13,641
Others	46,188
	₱12,645,148

Taxes and licenses capitalized as part of cost of 'Borrowings' amounted to ₱3.8 million in 2011.

The following withholding taxes are categorized into:

Withholding tax on compensation and benefits:	
Paid	₱16,623,754
Accrued	4,145,962
	20,769,716
Expanded withholding tax on:	
Professional fee:	
Paid	254,330
Accrued	15,272
Rent expense:	
Paid	2,942,506
Accrued	274,232
Others:	
Paid	1,900,939
Accrued	712,528
	6,099,807
	₱26,869,523

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Not-for-Profit Organization)

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

SCHEDULE I:	Schedule of All Philippine Financial Reporting Standards (PFRS) Effective as at December 31, 2011 [which consist of PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations]
SCHEDULE II:	Schedule of Receipts and Disbursements

<u>**SCHEDULE I**</u>

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC.
(A Nonstock, Not-for-Profit Organization)

SUPPLEMENTARY SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs) EFFECTIVE AS AT DECEMBER 31, 2011
[which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations]

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

PFRSs	Adopted / Not adopted / Not applicable
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not Applicable
PAS 27, *Consolidated and Separate Financial Statements*	Not Applicable
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not Applicable
PAS 31, *Interests in Joint Ventures*	Not Applicable
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Not Applicable
PAS 34, *Interim Financial Reporting*	Not Applicable
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Not Applicable
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not Applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not Applicable
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not Applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not Applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not Applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not Applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Adopted
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Not Applicable

PFRSs	Adopted / Not adopted / Not applicable
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not Applicable
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Not Applicable
Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not Applicable
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not Applicable
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Not Applicable
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Not Applicable
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Not Applicable
Philippine Interpretation SIC–7, Introduction of the Euro	Not Applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Not applicable
Philippine Interpretation SIC–15, *Operating Leases – Incentives*	Not Applicable
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not Applicable
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not Applicable
Philippine Interpretation SIC–27*, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Not Applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not Applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Not Applicable

Important: If an entity has early adopted any of the following pronouncements, please take note of the: (1) additional disclosures the entity has to make for the early adoption of the said pronouncements and (2) the existing PFRSs that the entity may have to mark as "**Not applicable**":

Standard(s)/Interpretation(s)/Amendment(s) issued but not yet effective	**Applicable to annual period beginning on or after**	**Early application allowed**	**Remarks**
Amendments to PFRS 7: *Disclosures—Transfers of Financial Assets*	July 1, 2011	Yes	To be adopted when effective
Amendments to PFRS 7: *Disclosures—Offsetting Financial Assets and Financial Liabilities*	January 1, 2013	Not mentioned	To be adopted when effective
PFRS 9, *Financial Instruments*	January 1, 2015	Yes	To be adopted when effective
PFRS 10, *Consolidated Financial Statements*	January 1, 2013	Yes	To be adopted when effective
PFRS 11, *Joint Arrangements*	January 1, 2013	Yes	To be adopted when effective
PFRS 12, *Disclosure of Interests in Other Entities*	January 1, 2013	Yes	To be adopted when effective
PFRS 13, *Fair Value Measurement*	January 1, 2013	Yes	To be adopted when effective
Amendments to PAS 1: *Presentation of Items of Other Comprehensive Income*	July 1, 2012	Yes	To be adopted when effective
Amendments to PAS 12–*Deferred Tax: Recovery of Underlying Assets*	January 1, 2012	Yes	To be adopted when effective
PAS 19, *Employee Benefits* (Revised)	January 1, 2013	Yes	To be adopted when effective
PAS 27, *Separate Financial Statements*	January 1, 2013	Yes	To be adopted when effective
PAS 28, *Investments in Associates and Joint Ventures*	January 1, 2013	Yes	To be adopted when effective
Amendments to PAS 32, *Offsetting Financial Assets and Financial Liabilities*	January 1, 2014	Yes	To be adopted when effective
Philippine Interpretation IFRIC–15, *Agreements for the Construction of Real Estate*	Deferred by SEC and FRSC	No	To be adopted when effective
Philippine Interpretation IFRIC–20, *Stripping Costs in the Production Phase of a Surface Mine*	January 1, 2013	Yes	To be adopted when effective

SCHEDULE II

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT (CARD), INC.
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SUPPLEMENTARY SCHEDULE OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

RECEIPTS

Collection of project and members assistance	₱13,071,408,976
Administrative fee	1,807,523,088
Proceeds from borrowings	1,055,000,000
Contributions from members for capital build up	486,796,797
Interest received	14,815,625
Grants received	12,192,598
Dividends received	5,775,465
Proceeds from disposal of property and equipment	4,221,622
Proceeds from maturity of short term investments	2,671,097
Others	1,757,219
	₱16,462,162,487

DISBURSEMENTS

Releases of project and members assistance	₱13,587,176,620
Settlement of borrowings	1,213,347,782
Project related expenses	1,162,023,408
Interest paid	157,893,582
Acquisition of property and equipment	31,681,127
Administrative expenses	29,270,342
Contribution to the retirement plan	17,112,720
Debt issue costs	11,489,366
Grants and donation	10,000,000
Investment in equity shares	8,158,800
Prepaid subscription of equity shares	8,000,000
Research expenses	7,449,633
Others	1,953,504
	₱16,245,556,884