

Center for Agriculture and  
Rural Development (CARD), Inc.  
(A Nonstock, Not-for-Profit Organization)

**Financial Statements  
December 31, 2008 and 2007**

**and**

**Independent Auditors' Report**

Sycip Gorres Velayo & Co.

# COVER SHEET

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SEC Registration Number

C E N T E R	F O R	A G R I C U L T U R E	A N D	R U R A L
D E V E L O P M E N T	( C A R D ) ,	I N C .	( A	N o n s t
o c k ,	N o t - f o r - P r o f i t	O r g a n i z a t i o n )		

(Company's Full Name)

2 0	M . L .	Q u e z o n	S t r e e t ,	C i t y	S u b d i
v i s i o n ,	S a n	P a b l o	C i t y ,	L a g u n a	

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

<b>Jocelyn D. Dequito</b>
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(Contact Person)

<b>(049) 562-4309</b>
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(Company Telephone Number)

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings			
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\* SGVMC112528 \*

## **INDEPENDENT AUDITORS' REPORT**

The Board of Trustees  
Center for Agriculture and Rural Development (CARD), Inc.  
20 M.L. Quezon Street, City Subdivision  
San Pablo City, Laguna

We have audited the accompanying financial statements of Center for Agriculture and Rural Development (CARD), Inc. (the Organization), a nonstock, not-for-profit organization, which comprise the balance sheets as at December 31, 2008 and 2007, and the statements of revenue and expenses, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

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

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

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

**\* SGVMC112528 \***

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Center for Agriculture and Rural Development (CARD), Inc. as of December 31, 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez  
Partner  
CPA Certificate No. 111092  
SEC PA Control No. A-223-A  
Tax Identification No. 900-322-673  
PTR No. 1566451, January 5, 2009, Makati City

March 21, 2009

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

**BALANCE SHEETS**

	<b>December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	<b>₱88,992,600</b>	₱46,753,387
Short-term investments (Note 7)	<b>195,872,933</b>	54,403,602
Receivables		
Receivables from members (Note 8)	<b>1,701,548,236</b>	1,372,506,668
Due from affiliates (Notes 9 and 25)	<b>32,445,742</b>	10,055,605
Other receivables (Note 10)	<b>44,181,251</b>	36,603,806
Prepaid and other current assets (Note 11)	<b>10,823,408</b>	9,822,679
Total Current Assets	<b>2,073,864,170</b>	1,530,145,747
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 12)	<b>19,730,161</b>	26,095,746
Investment in associates (Note 13)	<b>80,605,446</b>	53,166,911
Property and equipment (Note 14)	<b>99,123,768</b>	60,318,352
Investment properties (Note 15)	<b>22,532,827</b>	24,374,151
Other noncurrent assets (Note 16)	<b>62,983,257</b>	54,345,540
Total Noncurrent Assets	<b>284,975,459</b>	218,300,700
	<b>₱2,358,839,629</b>	₱1,748,446,447
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 18)	<b>₱131,101,070</b>	₱64,695,273
Current portion of borrowings (Note 19)	<b>576,079,992</b>	283,741,747
Due to members (Note 20)	<b>699,910,549</b>	492,397,219
Total Current Liabilities	<b>1,407,091,611</b>	840,834,239
<b>Noncurrent Liabilities</b>		
Noncurrent portion of borrowings (Note 19)	<b>400,169,087</b>	455,815,898
Total Liabilities	<b>1,807,260,698</b>	1,296,650,137
<b>EQUITY</b>	<b>551,578,931</b>	451,796,310
	<b>₱2,358,839,629</b>	₱1,748,446,447

*See accompanying Notes to Financial Statements.*

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

**STATEMENTS OF REVENUE AND EXPENSES**

	<b>Years Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>		
Administrative fee (Note 8)	<b>₱843,582,566</b>	₱517,230,904
Grants	<b>9,991,553</b>	24,825,760
Others (Note 23)	<b>20,157,639</b>	34,860,635
<b>TOTAL OPERATING INCOME</b>	<b>873,731,758</b>	576,917,299
<b>EXPENSES</b>		
Project related expenses (Note 22)	<b>697,601,796</b>	439,444,005
Grants and donations	<b>38,989,022</b>	21,899,445
Scholarship	<b>3,482,608</b>	2,818,082
Research	<b>2,606,616</b>	1,901,894
Technology development costs (Notes 17 and 23)	<b>2,231,434</b>	5,496,728
Health program	<b>599,372</b>	886,018
Others (Note 23)	<b>28,438,286</b>	22,256,376
<b>TOTAL OPERATING EXPENSES</b>	<b>773,949,134</b>	494,702,548
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>₱99,782,624</b>	₱82,214,751

*See accompanying Notes to Financial Statements.*

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

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**STATEMENTS OF CHANGES IN EQUITY**

	<b>Years Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Balance at January 1</b>	<b>₱451,796,307</b>	₱369,581,556
Excess of revenue over expenses	<b>99,782,624</b>	82,214,751
<b>Balance at December 31</b>	<b>₱551,578,931</b>	₱451,796,307

*See accompanying Notes to Financial Statements.*

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

**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	<b>₱99,782,624</b>	₱82,214,751
Adjustments for:		
Interest expense (Note 22)	<b>70,909,645</b>	47,137,632
Depreciation and amortization (Note 23)	<b>17,128,323</b>	11,161,712
Provision for credit losses (Note 17)	<b>16,946,582</b>	10,303,370
Provision for impairment losses (Note 23)	<b>10,306,516</b>	-
Gain on disposal of property and equipment	<b>(362,874)</b>	(97,393)
Dividend income (Note 23)	<b>(438,144)</b>	(834,048)
Equity in net earnings of Associates (Note 13)	<b>(1,680,851)</b>	(4,691,172)
Interest income (Note 23)	<b>(9,784,908)</b>	(4,032,363)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Receivables	<b>(374,264,200)</b>	(642,485,954)
Prepaid and other current assets	<b>(1,000,730)</b>	3,641,882
Other non-current assets	<b>(8,637,717)</b>	21,667,597
Increase in the amounts of:		
Due to members	<b>207,513,330</b>	208,370,373
Accounts payable and accrued expenses	<b>65,487,573</b>	23,450,890
Net cash generated from (used in) operations	<b>91,905,169</b>	(244,192,723)
Interest income received	<b>8,093,376</b>	4,032,363
Interest expense paid	<b>(69,991,423)</b>	(44,434,554)
Net cash generated from (used in) operating activities	<b>30,007,122</b>	(284,594,914)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/maturity of:		
Property and equipment (Note 14)	<b>3,752,154</b>	579,315
Short-term investments	<b>54,403,602</b>	-
Available-for-sale investments (Note 12)	<b>10,000,000</b>	-
Acquisitions of:		
Short-term investments	<b>(195,872,933)</b>	(54,403,602)
Property and equipment (Note 14)	<b>(57,481,695)</b>	(25,746,077)
Available-for-sale investments (Note 12)	<b>(3,634,415)</b>	(21,939,459)
Investment in Associates (Note 13)	<b>(42,064,200)</b>	(6,449,500)
Dividends received (Notes 13 and 23)	<b>6,438,144</b>	1,712,662
Net cash used in investing activities	<b>(224,459,343)</b>	(106,246,661)

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	<b>Years Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	<b>₱567,541,460</b>	₱500,329,802
Settlement of borrowings	<b>(330,850,026)</b>	(126,481,842)
Net cash provided by financing activities	<b>236,691,434</b>	373,847,960
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>42,239,213</b>	(16,993,615)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>46,753,387</b>	63,747,002
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱88,992,600</b>	₱46,753,387

*See accompanying Notes to Financial Statements.*

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

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**NOTES TO FINANCIAL STATEMENTS**

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**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 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.

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 of December 31, 2008 and 2007, the Organization had 400 and 315 branches, respectively.

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**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 that have been measured at fair value. The Organization's financial statements are presented in Philippine peso, the Organization's functional and presentation currency.

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amendment to existing PFRS, and Philippine Interpretations adopted during the year:

Amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosures*, which allow reclassifications of certain financial instruments held-for-trading (HFT) to either the held-to-maturity (HTM), loans and receivables or available for sale (AFS) categories, as well as certain instruments from AFS investments to loans and receivables. The adoption of the amendments to PAS 39 and PFRS 7 have no impact on the financial statements of the Organization.

Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

This Interpretation provides guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset, and how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. This Interpretation has no impact on the financial statements of the Organization.

**Summary of Significant Accounting Policies**

Foreign Currency Translation

*Transactions and balances*

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 period 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.

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. Amounts due to banks and receivables are recognized when cash is received by the Organization or advanced to the borrowers.

*Initial recognition of financial instruments*

All financial assets and financial liabilities are initially measured at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Organization classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and receivables. Financial liabilities are classified as financial liabilities at FVPL carried at fair value or 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 of December 31, 2008 and 2007, the Organization had no financial assets at FVPL, HTM investments and financial liabilities at FVPL.

*Determination of fair value*

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction 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.

*Receivables*

This accounting policy relates to the balance sheet captions 'Short-term investments' and 'Receivables'. These are 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 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 effective interest rate. The amortization is included in the 'interest income' in the statement of revenue and expenses. The losses arising from impairment are recognized in 'Provision for credit losses' under "Project related expenses" in the statement of revenue and expenses. Gains and losses are recognized in the statement of revenue and expenses when the receivables are derecognized or impaired through the amortization process.

*AFS investments*

AFS investments are those 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.

AFS investments comprise 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.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt investments, as well as the impact of restatement on foreign currency-denominated AFS debt investments, is reported in statement of revenue and expenses.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as 'Other revenue' in the statement of revenue and expenses. Dividends earned on holding AFS equity investments, if any, are recognized in the statement of revenue and expenses 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 revenue and expenses.

*Other financial liabilities at amortized cost*

Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under '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, borrowings, due to members and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate.

Derecognition of Financial Assets and Liabilities

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of 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 risk and rewards of the asset but has transferred the control of 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 of 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 revenue and expenses.

### Offsetting Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet 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.

### 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 use of an allowance account and the amount of loss is charged to the statement of revenue and expenses. 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 revenue and expenses.

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 Organization. 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 Organization 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.

#### *AFS investments*

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

In 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 statement of revenue and expenses - is removed from equity and recognized in the statement of revenue and expenses. Impairment losses on AFS investments are not reversed through the statement of revenue and expenses. Increases in fair value after impairment are recognized directly in equity.

#### 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 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 balance sheet.

*Interest income*

Interest income on deposit in banks, short-term investments and restricted funds is recognized as interest accrues using the effective interest rate, 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.

*Service charges, fees and commissions*

Fees on receivable from members are recognized over the term of the credit lines granted to each borrower. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectibility.

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.

Investments in Associates

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 an associate is accounted for under the equity method of accounting.

Under the equity method, an investment in associate is carried in the balance sheet 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 not amortized. The Organization's share in an associate's post-acquisition profits or losses is recognized in the statement of revenue and expenses, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. 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 identical and the associates' accounting policies conform to those used by the Organization for like transactions and events in similar circumstances.

Property and Equipment

Property and equipment include land, building and improvements, transportation equipment and furniture and equipment and are carried at cost less accumulated depreciations and any impairment loss.

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 the fixed assets 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 are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statement of revenue and expenses.

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying 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 revenue and expenses.

#### Investment Properties

Investment properties are carried at cost less accumulated depreciation and any impairment loss. 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 revenue and expenses in the period of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against income in the year in which the costs are incurred.

Depreciation on buildings 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 (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, 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 (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

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

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. 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 revenue and expenses unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Recoverable amount of property and equipment is based on value in use, while investment properties are based on fair value less costs to sell.

##### *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 its associates. The Organization determines at each balance sheet 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 fair value of the associate and the acquisition cost and recognizes the amount in the statement of revenue and expenses.

### Retirement Cost

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 balance sheet, in respect of defined benefit pension plans, is the fair value of the plan assets at the balance sheet date less the present value of defined benefit obligation, 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 or credited to income 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 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.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

### 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.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### *Organization as lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of revenue and expenses 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 period in which they are earned.

#### Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred.

#### Subsequent Events

Any post-year-end events that provide additional information about the Organization's position at the balance sheet 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 2009*

##### *Amendment to PAS 1, Amendment on Statement of Comprehensive Income*

In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expenses recognized in the statement of income together with 'Other comprehensive income'. The revision specifies what is included in other comprehensive income, such as gains and losses on AFS investments, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income.

*PAS 23, Borrowing Costs*

The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, this change in accounting for borrowing costs shall be accounted for prospectively. Accordingly, borrowing costs will be capitalized on qualifying asset with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

*PAS 32, Financial Instruments: Presentation, and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria.

*PFRS 1, First-time Adoption of PFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under Philippine generally accepted accounting principles) of the investment at the date of transition to PFRS.

*PFRS 2, Share-based Payment - Vesting Condition and Cancellations*

The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-

vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

*PFRS 8, Operating Segments*

This PFRS adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market.

*Philippine Interpretation IFRIC - 13, Customer Loyalty Programmes*

This Interpretation addresses the accounting by an entity that grants award credits to its customers.

Philippine Interpretation IFRIC - 16, *Hedges of a Net Investment in a Foreign Operation*

This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. Currently, the Organization has no hedges of a net investment in a foreign operation.

*Effective in 2010*

Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while changes introduced by revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interest.

Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*

This Interpretation covers accounting for two types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. The two types of distributions are:

- a. distribution of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in PFRS 3, ownership interest in another entity or disposal group as defined in PFRS 5); and
- b. distribution that give the owners a choice of receiving either non cash assets or cash alternative

This Interpretation addresses only the accounting by an entity that makes a non cash asset distribution. It does not address the accounting by shareholders who receive such distribution.

Philippine Interpretation IFRIC 18, *Transfer of Assets from Customers*

This Interpretation covers accounting for transfer of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both.

*Amendment to PAS 39, Financial Instruments: Recognition and Measurement - Eligible hedged items*

Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

*Effective in 2012*

*Philippine Interpretation IFRIC-15, Agreement for 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. This 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.

*Improvements to PFRS*

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. These are the separate transitional provisions for each standard:

*PFRS 5, Non-current Assets Held for Sale and Discontinued Operations*

When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

*PAS 1, Presentation of Financial Statements*

Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

*PAS 16, Property, Plant and Equipment*

The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

*PAS 19, Employee Benefits*

The definition of 'past service costs' is revised to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

The definition of 'return on plan assets' is revised to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

The definition of 'short-term' and 'other long-term' employee benefits is revised to focus on the point in time at which the liability is due to be settled.

The reference to the recognition of contingent liabilities is revised to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

*PAS 20, Accounting for Government Grants and Disclosures of Government Assistance*

Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

*PAS 23, Borrowing Costs*

The definition of borrowing costs is revised to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

*PAS 28, Investment in Associates*

If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

*PAS 31, Interest in Joint Ventures*

If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, revenue and expense will apply.

*PAS 36, Impairment of Assets*

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

*PAS 38, Intangible Assets*

Expenditure on advertising and promotional activities is recognized as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.

References to there being rarely is deleted, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

*PAS 39, Financial Instruments: Recognition and Measurement*

Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.

When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.

The reference to a 'segment' is removed when determining whether an instrument qualifies as a hedge.

The use of the revised effective interest rate is required (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

*PAS 40, Investment Properties*

The scope (and the scope of PAS 16) is revised to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete

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### 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 at reporting date. 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 property portfolio on operating leases since all the significant risks and rewards of ownership of 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 yearly upon agreement of both parties.

*(b) Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the balance sheet 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.

*(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.

Estimates

*(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 revenue and expenses, 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 loans before the decrease can be identified with an individual loan 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 of December 31, 2008, and 2007, allowance for credit losses on receivables of the Organization amounted to ₱38.7 million and ₱24.5 million, respectively (see Note 17).

As of December 31, 2008 and 2007, the carrying value of receivables from members amounted to ₱1.7 billion and ₱1.4 billion, respectively (see Note 8). As of December 31, 2008 and 2007, the carrying value of due from affiliates amounted to ₱32.4 million and ₱10.1 million, respectively (see Note 9). As of December 31, 2008 and 2007, the carrying value of other receivables amounted to ₱44.2 million and ₱36.6 million, respectively (see Note 10).

*(b) Impairment of AFS investments*

The Organization determines that AFS 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.

As of December 31, 2008 and 2007, the carrying value of AFS investments amounted to ₱19.7 million and ₱26.1 million, respectively (see Note 12).

(c) *Present value of retirement obligation*

The determination of the net retirement asset and retirement recovery and other employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates. Due to the long term nature of this plan, such estimates are subject to significant uncertainty. In compliance with PFRS, actual results that differ from the Organization's assumptions, subject to the 10.0% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The expected rate of return on plan assets of 6.00% was based on market prices prevailing on the date of valuation, applicable to the period over which the 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 of balance sheet dates. Refer to Note 21 for the details of assumptions used in the calculation.

Net retirement asset recognized under 'Other noncurrent assets' in the balance sheet amounted to ₱25.9 million and ₱20.9 million as of December 31, 2008 and 2007, respectively (see Note 16).

As of December 31, 2008 and 2007, the present value of the defined benefit obligation amounted to ₱22.0 million and ₱47.0 million, respectively (see Note 21).

(d) *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 approach for property and equipment and, fair value less cost 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 of December 31, 2008 amounted to ₱99.1 million and ₱22.5 million, respectively. As of December 31, 2007, the carrying value of property and equipment and investment properties amounted to ₱60.3 million and ₱24.4 million, respectively (see Notes 14 and 15).

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#### 4. Fair Value Measurement

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, receivables, and other assets and other liabilities.

Equity securities - For equity investments that are not quoted, the investments are carried at cost less any allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Borrowings - Non current portion of borrowings are discounted using the current market interest rates to arrive at its fair value. Refer to note 19 for the fair values of the non-current borrowings.

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#### 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 Trustee (BOT) through its Audit Committee (AC) 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 Organization is strengthened with conjunction of 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*

The Organization manages its credit risk by providing field personnel with thorough trainings for effective and efficient service delivery to mitigate such risks. The operations manual is a reference for every operations personnel. The manual is tailored fit for the microfinance program clients and is being updated as new policies and procedures are finalized and approved by the BOT based on the clients and staff satisfaction survey, staff and management program review and planning meetings and workshops.

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 President.

Research team is continuously conducting market research as a tool for updating and developing of loans products responsive to the needs and demands of the existing and potential clients.

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 risk before collateral held or other credit enhancements*

An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	2008	2007
<b>Financial Assets</b>		
Cash in banks	<b>₱88,619,073</b>	₱46,263,058
Short-term investments	<b>195,872,933</b>	54,403,602
Receivables:		
Receivables from members	<b>1,701,548,236</b>	1,372,506,668
Due from affiliates	<b>32,445,742</b>	10,055,605
Other receivables	<b>44,181,251</b>	36,603,806
AFS investments	<b>19,730,161</b>	26,095,746
Restricted funds	<b>22,699,577</b>	19,315,213
Others	<b>14,381,284</b>	14,158,134
<b>Total credit risk exposure</b>	<b>₱2,119,478,257</b>	₱1,579,401,832

The Organization assessed that it has no credit risk exposures relating to off-balance sheet items.

Credit Quality

Financial assets other than receivables are with the government and other reputable financial institutions and are deemed to be high grade.

Receivables rated as high and standard grades refer to those accounts that do not have greater than normal risk or have potential weaknesses only.

High grade represent those accounts granted to borrowers which are availed loans intended for microeconomic activities.

Standard grade represent those accounts granted to borrowers which have availed loans intended for financing business capital emergency needs, multi-purpose requirements and housing improvements.

The table below shows the credit quality of receivables per class of financial assets as of December 31, 2008 and 2007 (in thousands):

	2008					
	Neither Past Due nor Individually Impaired			Past Due but not Impaired	Past Due and Impaired	Total
	High Grade	Standard Grade	Unrated			
Receivables						
Receivables from members	P1,723,830	P-	P-	P1,963	P13,159	P1,738,952
Due from affiliates	-	32,446	-	-	-	32,446
Other receivables						
Accrued administrative fee receivable	24,524	-	-	-	-	24,524
Accounts receivable	19,714	-	-	-	1,254	20,968
	<b>P1,768,068</b>	<b>P32,446</b>	<b>P-</b>	<b>P1,963</b>	<b>P14,413</b>	<b>P1,816,890</b>

  

	2007					
	Neither Past Due nor Individually Impaired			Past Due but not Impaired	Past Due and Impaired	Total
	High Grade	Standard Grade	Unrated			
Receivables						
Receivables from members	P1,391,276	P-	P-	P653	P5,013	P1,396,942
Due from affiliates	-	10,056	-	-	-	10,056
Other receivables						
Accrued administrative fee receivable	26,895	-	-	-	-	26,895
Accounts receivable	9,766	-	-	-	-	9,766
	<b>P1,427,937</b>	<b>P10,056</b>	<b>P-</b>	<b>P653</b>	<b>P5,013</b>	<b>P1,443,661</b>

Aging Analysis of Past Due but not Impaired Receivables per Class of Financial Assets

The following table shows the total aggregate amount of gross past due but not impaired loans and receivables *per delinquency bucket* as of December 31, 2008 and 2007 (in thousands):

	2008					
	Neither Past Due nor	Past Due but not Impaired			Past Due Impaired	Total
		Less than 60	61-90	91-120		
Loans and receivables						
Receivable from customers	P1,723,830	P-	P5	P1,396	P13,159	P1,738,952
Due from Affiliates	32,446	-	-	-	-	32,446
Other receivables						
Accrued administrative fee receivable	24,524	-	-	-	-	24,524
Accounts receivable	19,714	-	-	-	1,254	20,968
	<b>P1,800,514</b>	<b>P-</b>	<b>P5</b>	<b>P1,396</b>	<b>P14,413</b>	<b>P1,816,890</b>

  

	2007					
	Neither Past Due nor	Past Due but not Impaired			Past Due Impaired	Total
		Less than 30	31-60	61-90		
Loans and receivables						
Receivable from customers	P1,391,276	P14	P1	P446	P5,013	P1,396,944
Due from Affiliates	10,056	-	-	-	-	10,056
Other receivables						
Accrued administrative fee receivable	26,895	-	-	-	-	26,895
Accounts receivable	9,766	-	-	-	-	9,766
	<b>P1,437,993</b>	<b>P14</b>	<b>P1</b>	<b>P446</b>	<b>P5,013</b>	<b>P1,443,661</b>

*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 table below shows the maturity profile of the financial liabilities based on contractual undiscounted cash flows (in thousands):

	2008								Total
	On Demand	Up to 1	1	3 6	6 12	Tota Withi 1 year	1 3	Beyond 3	
<b>Financial Liabilities</b>									
Accounts payable and accrued expenses									
Accounts payable	₱10,248	₱1,042	₱8,104	₱25,029	₱18,583	₱63,006	₱12,090	₱-	₱75,096
Funds held-in-trust	55	114	1,194	1,380	3,840	6,583	2,799	1,200	10,582
Accrued interest	1,271	8,069	273	-	-	9,613	-	-	9,613
Current portion of borrowings	-	8,696	197,321	74,463	295,600	576,080	-	-	576,080
Due to members	699,911	-	-	-	-	699,911	-	-	699,911
Noncurrent portion of borrowings	-	-	-	-	-	-	287,923	112,246	400,169
Future interest on borrowings	9,613	7,286	4,459	17,153	16,900	55,411	85,355	16,686	157,452
	<b>₱721,098</b>	<b>₱25,207</b>	<b>₱211,351</b>	<b>₱118,025</b>	<b>₱334,923</b>	<b>₱1,410,604</b>	<b>₱388,167</b>	<b>₱130,132</b>	<b>₱1,928,903</b>

	2007								Total
	On Demand	Up to 1	1	3 6	6 12	Tota Withi 1 year	1 3	Beyond 3	
<b>Financial Liabilities</b>									
Accounts payable and accrued Expenses									
Accounts payable	₱6,199	₱661	₱11,240	₱11,723	₱9,812	₱39,635	₱-	₱-	₱39,635
Funds held-in-trust	-	-	99	770	5,003	5,872	4,236	-	10,108
Accrued interest	-	958	6,072	1,272	-	8,302	-	-	8,302
Current portion of borrowings	-	8,631	65,475	76,050	133,586	283,742	-	-	283,742
Due to members	492,397	-	-	-	-	492,397	-	-	492,397
Noncurrent portion of borrowings	-	-	-	-	-	-	417,202	38,614	455,816
Future interest on borrowings	4,072	2,337	12,825	16,072	23,891	59,197	63,270	2,750	125,217
	<b>₱502,668</b>	<b>₱12,587</b>	<b>₱95,711</b>	<b>₱105,887</b>	<b>₱172,292</b>	<b>₱889,145</b>	<b>₱484,708</b>	<b>₱41,364</b>	<b>₱1,415,217</b>

*Market Risk*

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates and other market changes.

*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 rate of 30.0% per annum. The shortest term of loan is 6 months while the longest term is 1 year.

The Organization pays fixed interest to the members at 2.5% in 2008 and 3.0% per annum in 2007.

The Organization pays fixed interest to the creditors at 2.0% to 12.0% per annum which is payable from 2 to 5 years.

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

*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 (PHP) and its exposure to foreign currency risk arises primarily with respect to the Organization's cash, investment in unquoted stocks and borrowings which are denominated in US dollars and euro.

The table below demonstrates the sensitivity of income to reasonably possible changes in foreign exchange rates. The Organization's equity is not sensitive to changes in foreign exchange rates.

	USD/PHP FX Rate Increase/Decrease	Income Before Income Estimated Effect	USD/PHP FX Rate Increase/Decrease	Income Before Income Estimated Effect
<b>2008</b>	+5%	<b>₱1,199,54</b>	+10%	<b>₱2,399,08</b>
	-5%	<b>(1,199,54)</b>	-10%	<b>(2,399,08)</b>
2007	+5%	₱220,54	+10%	₱441,08
	-5%	(220,54)	-10%	(441,08)

There is no other effect to equity other than the effect of a reasonable possible change in the spot rates on currencies to income after tax.

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**6. Cash and Cash Equivalents**

This account consists of:

	<b>2008</b>	2007
Cash in banks (Note 25)	<b>₱88,619,073</b>	₱46,263,058
Cash on hand	<b>373,527</b>	490,329
	<b>₱88,992,600</b>	₱46,753,387

Cash in banks earned annual interest rates ranging from 0.5% to 2.5% in 2008 and 1.0% to 4.0% in 2007.

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**7. Short-term Investments**

Short-term investments consist of savings deposits and time deposits with maturities of more than three months but less than one year from balance sheet dates. In 2008 and 2007, such investments earned annual interest rates ranging from 1.1% to 11.0% and 5.3% to 5.5%, respectively.

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**8. Receivables from Members**

This account consists of:

	<b>2008</b>	2007
Project assistance receivable	<b>₱1,602,015,843</b>	₱1,277,293,397
Member assistance receivable	<b>136,936,129</b>	119,650,454
	<b>1,738,951,972</b>	1,396,943,851
Less allowance for credit losses (Note 17)	<b>(37,403,736)</b>	(24,437,183)
	<b>₱1,701,548,236</b>	₱1,372,506,668

Project assistance receivable and Member assistance receivable earn annual nominal administrative fee of 30.0% in 2008 and 2007.

As of December 31, 2008 and 2007, project assistance receivables with carrying value of ₱423.9 million and ₱251.2 million, respectively, were used as collateral for interest-bearing borrowings (see Note 19). Project assistance receivables granted to members are partially secured by Due to members (see Note 20).

Receivables from members include past due receivables amounting to ₱16.4 million and ₱5.7 million as of December 31, 2008 and 2007, respectively.

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**9. Due from Affiliates**

This account consists of:

	<b>2008</b>	2007
CARD Business Development Services Foundation (CARD BDSF)	<b>₱28,511,741</b>	₱-
CARD Employee Multi Purpose Cooperative (CARD EMPC)	<b>3,149,029</b>	7,721,710
CARD Mutual Benefit Association (MBA)	<b>632,737</b>	-
CARD-Mutually Reinforcing Institution Development Institute, Inc. (CMDI)	<b>151,635</b>	1,876,969
CARD Bank, Inc. (CARD Bank)	-	456,926
CARD CAMIA	<b>600</b>	-
	<b>₱32,445,742</b>	₱10,055,605

Due from CARD BDSF represents a loan granted for initial working capital. The loan has a term of 5 years and earns 9% interest per annum.

Due from other affiliates are immediate funding requirements of affiliates advanced by the Organization which are due and demandable.

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## 10. Other Receivables

This account consists of:

	2008	2007
Accrued administrative fee receivable	<b>P24,524,494</b>	P26,894,938
Others	<b>20,968,195</b>	9,766,301
	<b>45,492,689</b>	36,661,239
Less allowance for credit losses (Note 17)	<b>(1,311,438)</b>	(57,433)
	<b>P44,181,251</b>	P36,603,806

Others consist of the following:

	2008	2007
Other Microfinance Institutions	<b>P10,850,664</b>	P-
PT Triputra Persada Rahmat	<b>3,249,528</b>	-
Receivables from Staff	<b>1,799,331</b>	-
Department of Agrarian Reform (DAR)	<b>1,250,699</b>	-
Southeast Asian Interdisciplinary Development Institute Foundation (SAIDI)	<b>1,000,000</b>	-
CARD Cambodia Liason Office	<b>907,101</b>	203,881
Grameen Foundation USA	<b>550,545</b>	386,280
KFI Center for Community Development Foundation, Inc.	<b>83,255</b>	4,075,727
Microventures, Inc.	-	1,898,925
Tao Yu Mae Organization	-	283,480
Others	<b>1,277,072</b>	2,918,008
	<b>P20,968,195</b>	P9,766,301

Receivables from other microfinance institutions are short-term interest bearing financing granted to microfinance organizations operating in hard to reach areas which aim in improving the life of the poor communities. Normal terms of these receivables are 6 months to 1 year.

Receivables from PT Triputra Persada Rahmat are the assistance provided by the Organization in setting up the microfinance program in a particular country or area in exchange for part ownership on the Microfinance institution upon successful implementation of the microfinance program.

Receivable from DAR represents future funding by the department for jointly implementing Microfinance Capacity Development Program which aims on the development of cooperatives to become microfinance institutions. Receivable from SAIDI pertains to bridge financing granted by the Organization for the construction of the former's research facility.

\* SGVMC112528 \*

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

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### 11. Prepaid and Other Current Assets

This account consists of:

	2008	2007
Prepaid expenses	<b>₱8,136,698</b>	₱6,659,623
Supplies on hand	<b>2,686,710</b>	3,163,056
	<b>₱10,823,408</b>	₱9,822,679

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### 12. Available-for-Sale Investments

AFS investments consist of:

	2008	2007
Investment in shares of stocks of Responsible Investments for Solidarity and Empowerment (RISE) Financing Co. Incorporated	<b>₱13,411,721</b>	₱12,014,721
Investment in preferred stocks of CARD Bank	<b>1,709,000</b>	10,752,600
Others	<b>4,609,440</b>	3,328,425
	<b>₱19,730,161</b>	₱26,095,746

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The Organization's AFS investments represent investments in non-marketable equity securities. These investments are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

In 2008, the Organization sold most of its investment in preferred stocks of CARD Bank to fund its purchase of additional common shares of CARD Bank (see Note 13).

Others comprise of investment in other microfinance institutions outside the Philippines.

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### 13. Investment in Associates

This account includes investment in shares of common stock of:

	2008	2007
At equity:		
Acquisition Cost		
CARD Bank - 40.0% owned in 2008 and in 2007	<b>₱53,879,500</b>	₱19,040,500
Rural Bank of Sto. Tomas (RBST) - 40.0% owned in 2008 and 2007	<b>17,525,200</b>	10,300,000
	<b>71,404,700</b>	29,340,500
(Forward)		

\* SGVMC112528 \*

	2008	2007
Accumulated equity in net earnings		
Balance at beginning of the year	<b>₱23,826,411</b>	₱20,013,853
Equity in net earnings (Note 23)	<b>1,680,851</b>	4,691,172
Dividends received	<b>(6,000,000)</b>	(878,614)
Balance at end of year	<b>19,507,262</b>	23,826,411
Allowance for impairment losses (Note 23)	<b>10,306,516</b>	-
	<b>₱80,605,446</b>	₱53,166,911

In 2008, the Organization subscribed for additional shares of CARD Bank and RBST for ₱34.8 million and ₱7.2 million, respectively.

As of December 31, 2007, investment in RBST was included under AFS investments.

The following table summarizes the financial information of the Organization's investments in associates:

	CARD Bank		RBST	
	2008	2007	2008	2007
Total assets	<b>₱1,242,257,683</b>	₱719,502,420	<b>₱126,713,701</b>	₱71,001,291
Total liabilities	<b>1,048,547,673</b>	585,169,045	<b>126,028,035</b>	70,281,720
Total revenues	<b>403,396,439</b>	224,320,290	<b>31,649,595</b>	5,309,483
Net income (loss)	<b>20,534,674</b>	11,727,929	<b>(5,812,895)</b>	(10,519,650)

In 2008, the Organization recognized the share in losses of RBST in 2007 amounting to ₱4.2 million. The Organization also recognized an impairment loss on its investment in RBST amounting to ₱10.3 million due to the continuing losses of RBST.

#### 14. Property and Equipment

The composition of and movements in this account follow:

	20					
	Land	Building and Improvements	Furniture and Equipment	Transportation Equipment	Construction in Progress	Total
<b>Cost</b>						
Balance at beginning of year	<b>₱30,265,003</b>	<b>₱20,509,711</b>	<b>₱16,220,299</b>	<b>₱26,307,900</b>	<b>1</b>	<b>₱93,302,946</b>
Additions	-	2,288,015	10,510,426	18,694,000	25,989,100	57,481,695
Disposals	-	-	(4,461,919)	(7,490,500)	-	(11,952,499)
Balance at end of year	<b>30,265,003</b>	<b>22,797,726</b>	<b>22,268,806</b>	<b>37,511,400</b>	<b>25,989,100</b>	<b>138,832,142</b>
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	-	11,459,460	8,025,004	13,500,100	-	32,984,594
Depreciation and amortization	-	1,738,642	5,474,972	8,073,300	-	15,286,999
Disposals	-	(10,667)	(2,469,202)	(6,083,300)	-	(8,563,219)
Balance at end of year	-	<b>13,187,435</b>	<b>11,030,774</b>	<b>15,490,100</b>	-	<b>39,708,374</b>
<b>Net Book Value</b>	<b>₱30,265,003</b>	<b>₱9,610,291</b>	<b>₱11,238,032</b>	<b>₱22,021,200</b>	<b>₱25,989,100</b>	<b>₱99,123,768</b>

	2007				Total
	Land	Building and Improvements	Furniture and Equipment	Transportation Equipment	
<b>Cost</b>					
Balance at beginning of year	₱23,557,199	₱20,273,911	₱10,468,708	₱15,582,468	₱69,882,286
Additions	6,707,804	235,800	6,481,929	12,320,544	25,746,077
Disposals	–	–	(730,338)	(1,595,079)	(2,325,417)
Balance at end of year	30,265,003	20,509,711	16,220,299	26,307,933	93,302,946
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	–	9,853,996	5,077,726	10,640,958	25,572,680
Depreciation and amortization	–	1,605,464	3,658,334	3,991,614	9,255,412
Disposals	–	–	(711,056)	(1,132,442)	(1,843,498)
Balance at end of year	–	11,459,460	8,025,004	13,500,130	32,984,594
<b>Net Book Value</b>	<b>₱30,265,003</b>	<b>₱9,050,251</b>	<b>₱8,195,295</b>	<b>₱12,807,803</b>	<b>₱60,318,352</b>

During the year, equipment with carrying value of ₱3.4 million were disposed resulting to a gain of ₱0.4 thousand.

Land with carrying value of ₱9.5 million as of December 31, 2008 and 2007 partially secures interest-bearing borrowings amounting to ₱213.8 million and ₱219.5 million as of December 31, 2008 and 2007, respectively (see Note 19).

The Organization granted the CMDI the usufruct over certain properties consisting of land and improvements for use as CMDI's office and training center. The grant of the usufruct was made by the Organization without consideration and for the purpose of assisting the CMDI in its objective of pursuing the development of microfinance in the country as a means of improving the quality of life of Filipinos. The usufruct shall be for a period of ten (10) 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.

The details of depreciation and amortization presented as project related expenses and other expenses under the statement of revenue and expenses follow (see Notes 22 and 23):

	2008	2007
Property and equipment	<b>₱15,286,999</b>	₱9,255,412
Investment properties (Note 15)	<b>1,841,324</b>	1,906,300
	<b>₱17,128,323</b>	₱11,161,712

## 15. Investment Properties

The composition of and movements in this account follow:

	2008			2007		
	Land	Building and Improvements	Total	Land	Building and Improvements	Total
<b>Cost</b>						
Balance at beginning and end of year	<b>₱16,327,507</b>	<b>₱18,246,345</b>	<b>₱34,573,852</b>	₱16,327,507	₱18,246,345	₱34,573,852
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	–	10,199,701	10,199,701	–	8,293,401	8,293,401
Depreciation	–	1,841,324	1,841,324	–	1,906,300	1,906,300
Balance at end of year	–	12,041,025	12,041,025	–	10,199,701	10,199,701
<b>Net Book Value</b>	<b>₱16,327,507</b>	<b>₱6,205,320</b>	<b>₱22,532,827</b>	₱16,327,507	₱8,046,644	₱24,374,151

The Organization leased the properties to CARD Bank branches.

Direct operating expenses on investment properties that generated rental income in 2008 and 2007 included under depreciation expense and taxes and licenses, amounted to ₱1.9 million and ₱2.0 million, respectively.

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#### 16. Other Noncurrent Assets

This account consists of:

	2008	2007
Retirement asset (Note 21)	<b>₱25,902,396</b>	₱20,872,193
Restricted funds	<b>22,699,577</b>	19,315,213
Others (Note 25)	<b>14,381,284</b>	14,158,134
	<b>₱62,983,257</b>	₱54,345,540

Restricted funds represent cash deposits held by banks as collateral for borrowings from Development Bank of the Philippines (DBP) and Grameen Foundation (see Note 19). These funds earn annual interest ranging from 2.8% to 3.1% in 2008 and 2.9% to 3.1% in 2007.

Others represent grant fund from German Savings Foundation in 1997 intended as revolving fund of CARD Bank earning 2.0% annual interest rate in 2008 and 2007.

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#### 17. Allowance for Credit Losses

The details of provision for credit losses in the statement of revenue and expenses follow:

	2008	2007
Project related expenses (Note 22)	<b>₱16,946,582</b>	₱10,122,112
Technology development cost	-	181,258
	<b>₱16,946,582</b>	₱10,303,370

The movements in allowance for credit losses follow:

	2008			
	Pro Assista Receiv:	Me Assis Rece	Rec	
Balance at beginning of year	₱23,265,	₱1,17	₱24,43	₱24,49
Provisions for the year charged against current operations	15,135,	53	15,69	16,94
Amount written off	(2,637,	(8	(2,77	(2,77
Balance at end of year	<b>₱35,763,</b>	<b>₱1,62</b>	<b>₱37,40</b>	<b>₱38,71</b>

	2007			Rec	
	Receivable from Members				
	Pro Assista Receiv:	M Assi Rece			
Balance at beginning of year	P23,568,	P2,19	P25,76		P25,81
Provisions for the year charged against current operations	9,809,	49	10,30		10,30
Amount written off	(10,111,	(1,51	(11,62		(11,62
Balance at end of year	P23,265,	P1,17	P24,43		P24,49

## 18. Accounts Payable and Accrued Expenses

This account consists of:

	2008	2007
Accounts payable (Note 25)	<b>P75,096,128</b>	P39,634,533
Accrued expenses	<b>35,809,838</b>	6,649,891
Funds held-in-trust	<b>10,581,894</b>	10,108,347
Accrued interest	<b>9,613,210</b>	8,302,502
	<b>P131,101,070</b>	P64,695,273

Accounts payable include grant payable to certain community and scholarship projects of the Organization totaling P29.2 and P15.0 million as of December 31, 2008 and 2007, respectively. Funds held-in-trust represents grants that are allocated for a specific purpose which will be returned to the donor by the Organization if the specific purpose is not complied with.

## 19. Borrowings

This account consists of borrowings from:

	2008	2007
<b>Current</b>		
Bank of the Philippine Islands (BPI)	<b>P150,000,000</b>	P50,000,000
Citibank	<b>120,000,000</b>	–
Oikocredit Foundation Philippines, Inc. (Oikocredit)	<b>100,750,000</b>	55,750,000
Metropolitan Bank and Trust Company	<b>50,000,000</b>	35,000,000
United Coconut Planters Bank	<b>50,000,000</b>	–
Hongkong Shanghai Banking Corporation	<b>40,000,000</b>	–
Land Bank of the Philippines	<b>35,822,338</b>	20,000,000
People's Credit and Finance Corporation (PCFC)	<b>16,744,628</b>	72,481,898
Grameen Foundation (Note 16)	<b>7,935,318</b>	5,923,680
(Forward)		

	2008	2007
Cordaid	<b>₱2,027,810</b>	₱9,756,194
National Livelihood Support Fund (NLSF)	<b>1,686,898</b>	1,544,743
DBP (Note 16)	<b>1,113,000</b>	16,113,000
Planters Bank	-	14,583,333
Grameen Trust	-	2,588,899
	<b>576,079,992</b>	283,741,747
<b>Noncurrent</b>		
Oikocredit	<b>113,000,000</b>	163,750,000
BPI	<b>100,000,000</b>	50,000,000
PCFC	<b>85,364,923</b>	18,409,496
Deutsche Bank	<b>74,895,960</b>	74,895,960
Grameen Foundation (Note 16)	<b>10,038,412</b>	16,310,770
Cordaid	<b>10,000,000</b>	2,779,982
NLSF	<b>3,853,792</b>	5,540,690
DBP (Note 16)	<b>3,016,000</b>	4,129,000
Citibank	-	120,000,000
	<b>400,169,087</b>	455,815,898
	<b>₱976,249,079</b>	₱739,557,645

The Oikocredit borrowing is partly secured by the Organization's land (see Note 14), while, the DBP, NLSF, BPI and PCFC, Planters Bank and Citibank borrowings are secured by the Organization's project assistance receivable amounting to ₱423.9 million and ₱251.2 million as of December 31, 2008 and 2007, respectively (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% (developmental rate) to 12.6% in 2008 and 2007 and are payable in various annual, semi-annual and quarterly installments until 2014.

The fair values of non-current borrowings as of December 31, 2008 and 2007 discounted using the current market rates are shown below:

	2008	2007
Oikocredit	<b>₱118,721,461</b>	₱162,032,394
BPI	<b>96,800,064</b>	48,122,409
PCFC	<b>82,438,845</b>	17,855,272
Deutsche Bank	<b>82,124,308</b>	83,257,191
Cordaid	<b>13,516,930</b>	2,700,104
Grameen Foundation	<b>9,044,155</b>	12,657,087
NLSF	<b>3,828,376</b>	5,563,452
DBP	<b>3,152,595</b>	4,271,064
Citibank	-	125,341,801
	<b>₱409,626,734</b>	₱461,800,774

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## 20. 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. The due to members is built up through weekly members' contribution of ₱40.0 per week in 2008 and ₱20.0 in 2007.

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## 21. Employee Benefits

CARD MRI maintain a funded and formal noncontributory defined benefit retirement plan - the Multi-Employer Retirement Plan of CARD MRI (Multi-Employer Plan) - covering all of regular employees. The plan has a projected unit cost format and is financed solely by the Organization and three other related companies. The plan complies with the requirement of Republic Act No. 7641 (Retirement Law) and provides lump sum benefits upon retirement, death, total and permanent disability, involuntary separation (except cause) or voluntary separation after completion of at least ten (10) years of service with the participating companies.

The principal actuarial assumptions used in determining retirement liability for the Organization's retirement plan as of January 1, 2008 and 2007 are shown below:

	<b>2008</b>	2007
Discount rate	<b>10.2%</b>	12.0%
Expected rate of return on assets	<b>6.0</b>	8.0
Future salary increases	<b>8.0</b>	12.0

Discount rate used to arrive at the present value of obligation as of December 31, 2008 and 2007 are 12.4% and 10.2% respectively.

The amounts of retirement asset recognized in the balance sheet under 'Other noncurrent assets' are as follows:

	<b>2008</b>	2007
Fair value of plan assets	<b>₱48,583,594</b>	₱41,290,205
Present value of defined benefit obligation	<b>22,007,911</b>	46,983,036
Excess (deficit)	<b>26,575,683</b>	(5,692,831)
Net unrecognized actuarial loss	<b>7,600,144</b>	26,565,024
Amount not recognized as asset due to limit	<b>(8,754,269)</b>	-
Unrecognized past service cost - non vested benefits	<b>480,838</b>	-
Retirement asset	<b>₱25,902,396</b>	₱20,872,193

Past service cost represents the change in the basis for the retirement benefits from 105% to 110% of the employee's monthly salary.

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

	<b>2008</b>	2007
Government securities	<b>31.9%</b>	32.4%
Time deposits and special savings accounts	<b>68.1%</b>	67.6
	<b>100.0%</b>	100.0%

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

	<b>2008</b>	2007
Balance at beginning of year	<b>₱41,290,205</b>	₱48,448,500
Contribution paid by employer	<b>8,713,679</b>	-
Expected return	<b>3,449,221</b>	3,875,880
Actuarial gain (loss)	<b>194,054</b>	(11,012,500)
Transfer from the Plan	<b>(5,063,565)</b>	-
Benefits paid	-	(21,675)
Balance end of year	<b>₱48,583,594</b>	₱41,290,205

Transfer from the plan represents the re-allocation of funds from the Organization to its affiliates, equivalent to the estimated fair value of plan assets attributable to the employees transferred to the affiliates in 2008.

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 (loss) on plan assets in 2008 and 2007 amounted to ₱3,643,275 and (₱7,136,620), respectively.

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

	<b>2008</b>	2007
Balance at beginning of year	<b>₱46,983,036</b>	₱42,162,500
Actuarial gain	<b>(29,514,143)</b>	(5,495,879)
Transferred from the Plan	<b>(5,063,565)</b>	-
Interest cost	<b>4,768,778</b>	3,313,973
Current service cost	<b>3,833,578</b>	7,024,117
Past service cost	<b>1,000,227</b>	-
Benefits paid	-	(21,675)
Balance at end of year	<b>₱22,007,911</b>	₱46,983,036

The movements in unrecognized actuarial loss are as follows:

	2008	2007
Balance at beginning of year	(P26,565,024)	(P21,948,600)
Actuarial gain for the year - obligation	29,514,143	5,495,879
Actuarial gain (loss) for the year - plan assets	194,054	(11,012,500)
Actuarial (gain) loss recognized	(10,743,317)	900,197
Balance at end of year	<b>(P7,600,144)</b>	<b>(P26,565,024)</b>

The amounts included in salaries, wages and employee benefits under 'Project related expenses' and 'Other administrative expenses' account in the statement of revenue and expenses are as follows:

	2008	2007
Amortization of actuarial loss (gain)	(P10,743,317)	P900,197
Effect of asset limit	8,754,269	-
Interest cost	4,768,778	3,313,973
Current service cost	3,833,578	7,024,117
Expected return on plan assets	(3,449,221)	(3,875,880)
Past service cost	519,389	-
	<b>P3,683,476</b>	<b>P7,362,407</b>

The movements in the retirement asset are as follows:

	2008	2007
Balance at beginning or year	P20,872,193	P28,234,600
Actual contributions	8,713,679	-
Retirement expense	(3,683,476)	(7,362,407)
Balance at end of year	<b>P25,902,396</b>	<b>P20,872,193</b>

Information on the Organization's retirement plan for the current and previous years are as follows:

	200	200	2006
Fair value of plan assets	P48,583,59	P41,290,20	P48,448,500
Present value of defined benefit obligation	(22,007,91)	(46,983,03)	(42,162,500)
Excess (deficit)	26,575,68	(5,692,83)	6,286,000
Experience adjustments on plan liabilities	18,883,17	(1,115,02)	25,780,800
Experience adjustments on plan assets	194,05	(11,012,50)	3,764,200

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**22. Project Related Expenses**

This account consists of:

	2008	2007
Salaries, wages and employee benefits (Notes 21 and 25)	<b>₱352,522,248</b>	₱211,777,387
Interest expense (Note 19)	<b>70,909,645</b>	47,137,632
Transportation and travel	<b>69,126,829</b>	49,101,373
Supplies and materials	<b>33,722,472</b>	20,588,872
Rental expenses	<b>30,817,326</b>	21,911,831
Information technology	<b>21,073,333</b>	3,500,000
Staff training and development	<b>19,603,739</b>	15,168,219
Provision for credit losses (Note 17)	<b>16,946,582</b>	10,122,112
Program monitoring and evaluation	<b>13,062,437</b>	8,542,545
Depreciation expense (Note 23)	<b>12,281,488</b>	6,286,023
Communication and postage	<b>11,899,698</b>	8,062,426
Utilities	<b>7,672,180</b>	5,486,047
Janitorial, messengerial and security	<b>6,971,843</b>	6,375,777
Taxes and licenses	<b>5,381,300</b>	3,424,554
Insurance expense	<b>4,460,825</b>	2,603,311
Seminars and meetings	<b>3,016,282</b>	3,728,686
Client training and development	<b>2,246,121</b>	2,767,402
Others	<b>15,887,448</b>	12,859,808
	<b>₱697,601,796</b>	₱439,444,005

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

These accounts are composed of the following:

	2008	2007
Other revenue:		
Interest (Notes 6, 7 and 25)	<b>₱9,784,908</b>	₱4,032,363
Rent (Note 25)	<b>3,600,000</b>	3,660,000
Equity in net earnings of Associates (Note 13)	<b>1,680,851</b>	4,691,172
Unrealized foreign exchange gain	<b>1,317,044</b>	5,747,536
Dividend income (Note 25)	<b>438,144</b>	834,048
Miscellaneous (Note 25)	<b>3,336,692</b>	15,895,516
	<b>₱20,157,639</b>	₱34,860,635

Miscellaneous revenue in 2007 includes incentives from CARD Bank amounting to ₱7.78 million. It is based on the performance of previously acquired branches by CARD Bank which are operating under their management.

	2008	2007
Other expenses:		
Provision for impairment of an Associate (Note 13)	<b>₱10,306,516</b>	₱-
Depreciation and amortization	<b>4,423,844</b>	3,860,804
Salaries, wages and employee benefits (Notes 21 and 25)	<b>3,285,454</b>	2,475,411
Transportation and travel	<b>3,521,673</b>	2,409,858
Staff training and development	<b>2,489,587</b>	8,923,566
Program monitoring and evaluation	<b>637,984</b>	304,058
Representation	<b>570,970</b>	522,337
Supplies and materials	<b>210,208</b>	248,242
Communication and postage	<b>176,647</b>	194,593
Insurance	<b>114,473</b>	100,407
Management and other professional fees	<b>82,080</b>	1,194,107
Repairs and maintenance	<b>70,792</b>	64,929
Miscellaneous	<b>2,548,058</b>	1,958,064
	<b>₱28,438,286</b>	₱22,256,376

Depreciation and amortization on property and equipment and investment properties totaling ₱17.1 million in 2008 and ₱11.2 million in 2007, are included in the following expenses (see Note 14):

	2008	2007
Project related expenses (Note 22)	<b>₱12,281,488</b>	₱6,286,023
Technology development costs	<b>330,200</b>	863,360
Scholarship	<b>55,279</b>	49,004
Research	<b>37,512</b>	102,521
Other expenses	<b>4,423,844</b>	3,860,804
	<b>₱17,128,323</b>	₱11,161,712

Technology development costs are the cost of business development services where the main objective is to assist clients in developing their business and to provide marketing services for their product by linking to organizations and trade fairs and providing access to bulk sourcing of goods for the entrepreneurial activity. This operation was spun-off and related accounts were removed from the Organization's books effective May 2008 and incorporated as CARD BDSF.

## 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 of December 31, 2008 and 2007.

## 25. 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 affiliates described below:

Related Party	Nature of Transaction	Elements of Transaction			
		Balance Sheet		Statement of Revenue and Expenses	
		2008	2007	2008	2007
CARD Bank	Cash in banks	<b>₱6,047,264</b>	₱2,273,867		
	Due from affiliate	-	456,926		
	Other noncurrent assets	<b>14,381,284</b>	14,158,134		
	Accounts payable and accrued expenses	<b>13,610,034</b>	-		
	Interest income			<b>₱403,031</b>	₱542,927
	Dividend income			<b>438,144</b>	834,048
CMDI	Miscellaneous income			-	11,384,443
	Miscellaneous expense			-	3,177,653
CARD MBA	Due from Affiliate	<b>151,635</b>	1,876,969		
	Accounts payable and accrued expenses	<b>7,598,786</b>	6,185,447		
RBST	Other income			-	3,100,430
	Cash in banks	<b>11,466,886</b>	-		
	Short term investments	<b>24,063,501</b>	-		
CARD BDSF	Interest income			<b>498,312</b>	-
	Accounts payable	<b>80,908</b>	-		
CARD EMPC	Interest income			<b>1,691,532</b>	-
	Accounts payable	<b>2,583,029</b>	-		
	Due from Affiliate	<b>28,511,741</b>	-		
CARD CAMIA	Due from Affiliates	<b>3,149,029</b>	7,721,710		
	Due from Affiliate	<b>600</b>	-		

Other related party transactions include:

a. Lease of property

The Organization leases to CARD Bank office spaces for CARD Bank's head office and branch operations. Lease contracts are renewable annually. Revenue from these leases, which represent reimbursement of the Organization's depreciation and other expenses, amounted to ₱3.6 million in 2008 and ₱3.7 million in 2007, are included as part of 'Other revenue' in the statement of revenue and expenses. There are no outstanding receivables arising from these lease agreements as of December 31, 2008 and 2007.

- b. Project assistance receivable is guaranteed by CARD MBA. All the members of the Organization automatically become a member of CARD MBA. Every week, members are required to pay ₱20.0 in 2008 and 2007 which the Organization collects on behalf of CARD MBA. The liability of the Organization arises from the collections of the weekly contribution less the certain cost reimbursement fee and any claims paid to members on behalf of CARD MBA. The reimbursable cost is based on total collections of ₱20.0 plus a certain percentage of the total loans releases per month (1.5% and 0.8% for loans with maturity of 1 year and of 6 months, respectively).
- c. The short-term employee benefit of key management personnel of the Organization amounted to ₱4.2 million in 2008 and ₱3.7 million in 2007. Post retirement benefit of the key management personnel amounted to ₱7.3 million in 2008 and ₱8.3 million in 2007.

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**26. Approval of the Release of the Financial Statements**

The accompanying comparative financial statements of the Organization were reviewed and approved for release by the Organization's BOT on March 21, 2009.